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# China Report

ECONOMIC AFFAIRS

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18 June 1985

# CHINA REPORT

## ECONOMIC AFFAIRS

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NATIONAL POLICY AND ISSUES

PRC PAPER VIEWS CHINESE MANAGEMENT THEORY

HK151256 Beijing JINGJIRIBAO in Chinese 6 May 85 p 3

[Article by Yang Daonan [2799 6670 0589], associate professor of the Beijing Economics Institute: "The World Is Studying Ancient China's Management Ideas on Establishing Operations and Management Science With Chinese Characteristics"]

[Text] Editor's note: Ancient China's management ideas are an important component of man's cultural treasure house. In the current tide of enthusiastically learning foreign management skills, people do not pay sufficient attention to this invaluable heritage from our forefathers. The information provided in Comrade Yang Daonan's article can help us understand that, while learning and studying other people's management experiences, we should also attach importance to the strong points of our nation and concentrate our efforts on developing China's rich management ideas in ancient times, which is still virgin territory awaiting development. This will play a special and important role in our efforts to establish modern management science with Chinese characteristics. [end editor's note]

Ancient China's management ideas are still virgin territory awaiting development. In this article I shall make a brief introduction of the status of ancient China's management ideas in the world and the new trend of studying these ideas at home and abroad.

The Origin and Development of the History of World Management Ideas

Man's management ideas have a history of several thousand years. Some have developed into theories and have been used to direct production.

The management ideas of capitalist countries can generally be divided into two major stages, early and modern management ideas, with the publication of the "Principles of Scientific Management" in 1911 by the American Frederick Winslow Taylor generally regarded as the dividing line. Early management ideas can be divided into three periods: early civilization, the Middle Ages, and the period before and after the industrial revolution. Modern management ideas can also be divided into three major theoretical schools, namely, scientific management, behaviorism, and quantity theory [su liang xue pai 2422 6852 1331 3175].



## From Learning From the United States to Learning From Japan

The Taylor system was first initiated by Frederick W. Taylor, an American engineer, in the early 20th century. His book, "Principles of Scientific Management," was translated into Chinese and spread to China in 1916 by Mu Ouchu from Shanghai. After 1911, U.S. scientific management and the Taylor system were all the rage throughout the world. Because U.S. industry, particularly its technology and management skill, developed rapidly after World War I, the world's management ideas and theoretical circles were ruled by the United States for 70 years.

In 1981 Professor Vogel of the United States published a book entitled "Japan as Number One" and subtitled "Lessons for America." He discovered that Japan's team spirit is the secret of success and he called on people to learn from Japan.

In his book, entitled "The Z Theory" and subtitled "How Will American Enterprises Meet the Japanese Challenge?", Professor Ouchi of the United States divides enterprises into two categories: the A type and the Z type. The American-type companies (A type), which stress speed, individual performance, figures, and profits, seem eager for quick success and instant benefit but they lack foresight; the successful Japanese companies (Z type), however, have team spirit. Particularly after an accurate division of labor, the operational philosophies of managers often play their roles in enterprises. In their book, entitled "Art of Japanese Management," Professors Pascale and Aithos of the United States make a striking comparison between the Japanese and the American management methods and put forward seven factors: the United States attaches importance to three hardware factors, namely, strategy, structure, and system; Japan, however, in addition to the above-mentioned three factors, attaches greater importance to four software factors, namely, staff, skills, style, and supreme objective. The authors also compare the Matsushita Electric Co. of Japan with IBM of the United States to show the importance of the "seven-s" factors.

Following the publication of the above-mentioned best-sellers, people again hold that the Japanese-type management is first in the world and a new upsurge of "learning from Japan" has thus been started.

## Japan Studies China to Get to the Bottom of Things

Japan and China have numerous similarities in culture, society, clan, and habits and they also have frequent cultural exchanges. There are now many Sinologists in Japan carrying out a profound study of China's operations and management theories with styles of their own. They study not only "Sun Zi's Art of War," the Confucian "Analects," and the "Romance of the Three Kingdoms," but also the works, notes, and novels of various learned men before the destruction of Chinese classics by Emperor Shi Huang Di of the Qin dynasty in an effort to find something for reference. Makoto Murayama of Japan has delivered a report entitled "Modernization of Japanese Management and China's Classical Ideas" in both China and Japan. Hajime Ito has also written

numerous books, such as "Reviewing the Operating Ideas of Chinese Sages and Men of Virtue to Understand the Present," "A Study of Kings and Emperors," "Historical Figures," and "A Guide to Japanese Management Science." There are still many figures studying and works dealing with China's management ideas.

#### Compatriots in Hong Kong and Taiwan and Overseas Chinese in Southern Asia Talk About Chinese-Type Management

While the world's management theoretical circles compared the American-type and the Japanese-type management in 1981, compatriots in Taiwan Province and Hong Kong and overseas Chinese in Southeast Asia put forward the subject of Chinese-type management: now that the United States is learning from Japan and that Japan is studying China, what is Chinese-type management? What should we do about it?

In April last year, the management department of Taiwan University and "Chung Kuo Shih Pao" held a symposium on Chinese-type management. Some journals also carried articles on Chinese-type management and management modernization, describing the pattern of Chinese-type management. Recently, the Chinese University of Hong Kong also held a meeting to discuss Chinese-type management. Whether in Taiwan, Hong Kong, or Southeast Asia, it is generally held that, as the ideological basis of Chinese-type management, Confucian thought must be studied penetratingly.

#### Americans Discuss Ancient China's Management Ideas

C.S. George published the "History of Management Ideas" in 1972. In the chapter on Chinese management ideas, he wrote that "the Chinese have always been known throughout the world for their wisdom, but few people have studied their views on management." Talking about the ancient records, such as the "Rites of Zhou" and the "Mo Zi," he held that as early as 1100 B.C. China understood the principles of organizations, plans, command, and control. The "Rites of Zhou" stipulated in detail the division of labor and the duties of various officials. This shows that as far back as 3000 years ago, the Chinese envisaged the blueprint of modern organizations. The importance of system, method, and pattern on effective management was mentioned in an article in "Mo Zi," entitled "Legal Rites."

The "History of Management Ideas" cited some examples on the use of people including the legends of Yao abdicating and handing power over to Shun and the banishment of prime ministers. The book pointed out that as the oldest book on the art of war in the world, the "Sun Zi's Art of War" is still valuable today for it deals with the importance of planning and with such important questions as strategy and organization. As far back as in 120 B.C. China used various methods to scientifically select officials. For example, Gongsun Hong of the Han dynasty established the imperial examination system to select superior people through the method of holding state examinations.

The "Development of Management Ideas" by (Hoolen) [Hu Lun--5170 0243] of the United States was published in 1979. The book says that the door of ancient China's culture has been opened to Westerners for exploration. He pointed out that Sun Wu led his troops at different levels, that his officers were also divided in different ranks, and that he used drums, flags, smoke, and fire to transmit messages. Moreover, Sun Wu handled well the relationship between perpendicular leadership and staff officers, which is precisely an organizational theory we should follow in seeking modernization. The author holds that through his ethical teaching, Confucious formed his concept of value, with officials holding the highest and merchants the lowest social status and that China practiced division of labor a long time ago. We can see the division of labor in various different types of work in a rice bowl manufactured by a government-run industry.

#### Current Studies of Ancient China's Management Ideas

In the early post-liberation period, we introduced to China the Soviet-type management system and methods, which yielded certain results in the early period of socialist construction, but there were repeated reversals later. During the "Great Cultural Revolution," management was regarded as something "controlling, checking, and suppressing" people. As a result, few people cared to ask about it.

In recent years, our country has adopted the policy of invigorating the domestic economy and opening to the outside world and dispatched a large number of personnel and students to various countries to learn technology and management skills. As a result, management skills have spread to China from the United States, Japan, FRG, France, Canada, Sweden, Romania, Yugoslavia, and Hungary. Some countries have even set up training centers in our country. Therefore, a high tide of learning about management has been set off.

In 1982 the State Economic Commission and the China Enterprise Management Association put forward the idea of compiling an encyclopedia on China's enterprise management and, in the section on the history of the development of China's management, specifically pointed out the necessity of compiling a chapter on ancient China's management ideas. However, nobody in China has specifically engaged in the history of management ideas. We have invited many experts to read a large number of books and to write down the entries but, what with the tremendous number of ancient Chinese books and the limited time available, we have succeeded only in filling in the gaps and offering a few commonplace remarks by way of introduction. The first volume of the encyclopedia has been published.

Comrade Li Shijun of the Yunnan Provincial Association of Enterprise Management and Comrade Yang Xianju of the People's University have jointly written a book entitled "Sun Zi's Art of War and Enterprise Management." Recently off the press, the book represents a bold attempt and a breakthrough. In recent years, Professor Chen Bingfu of the Management Department of the Nankai University in Tianjin has repeatedly talked about the importance of compiling a history of China's management. He has published an article

entitled "From Sun Zi's Art of War to China's Management History." He plans to invite other scholars having a common goal to jointly write China's management history. Recently, Wu Hui of the Economic Research Institute of the China Academy of Social Sciences published an article entitled "Six Major Economic Reforms in Ancient China." In Shanghai, Guangzhou, Henan, Shandong, Shaanxi, and Anhui, there are also comrades in some universities, colleges, or factories studying China's management ideas but the detailed information must still be investigated.

A symposium on ancient China's management ideas sponsored by the Economic Research Institute of the State Economic Commission was held in Beijing in December 1984. The various experts and professors attending the meeting unanimously felt the importance and urgency of studying this issue. They decided to make preparations for the setting up of a research society on ancient China's management ideas and drafted some questions for study and some publication and training plans. This has received the support of the central leading comrades. The research into ancient China's management ideas has a good beginning.

#### Establishing Operations and Management Science With Chinese Characteristics

To establish operation and management science with Chinese characteristics, it is necessary to integrate China's traditional culture and ideas with modern management skills, to conscientiously sum up China's historical experience, and to absorb and to use advanced foreign operation and management theories and methods. This is our own management science, which should have a system of its own.

A factory director from Guangdong said: I have finished studying 18 courses on modern management but they are all foreign management theories and methods. I always think we lack China's tradition and the socialist spirit. Here he probably referred to Chinese-type operations and management ideas.

There are many management ideas and theories in the contemporary world, which can be divided into three main kinds, the American-type, the Japanese-type, and the Soviet-type. In the past, all the world learned from the American-type management but, after a campaign to learn from the Japanese-type management was started in 1981, in United States also learned from Japan. However, Japan's management ideas derived from ancient China's culture and philosophy. Compatriots from Taiwan and Hong Kong and overseas Chinese from Southeast Asia have also put forward the question of establishing the Chinese-type management.

Ours is a socialist country. In order to build socialism with Chinese characteristics, it is imperative to establish operations and management science with Chinese characteristics. Therefore, I would like to raise the following suggestions:

- 1) Set up a research society and ancient China's management ideas.
- 2) Set up training centers to train leaders at all levels, factory directors, and

teachers. We should concentrate greater efforts on studying operation and management science with Chinese characteristics, particularly the extremely rich management idea in ancient China. 3) Publish periodicals and books. It is necessary to compile operations and management science with Chinese cultural traditions. It is particularly necessary to publicize management ideas and experiences with Chinese characteristics. 4) Carry out academic exchanges. We should invite experts at home and abroad to hold symposiums or report meetings in order to carry out academic exchanges. 5) Collect and exchange data, particularly the data on foreign countries studying China's management ideas in order to know how they carry out their studies.

In short, ancient China's management ideas are still a virgin land to be developed. In studying modern management ideas, we should apply the spirit of "giving priority to our country, learning extensively from others' strong points, merging them together, refining them, and forming a system of our own" and the guiding principles of dialectical materialism and historical materialism in establishing operations and management science with Chinese characteristics and let it blossom in radiant splendor in the ideological treasure-house of mankind.

CSO: 4006/637

NATIONAL POLICY AND ISSUES

BRIEFS

SENIOR ECONOMIC LAW TRAINING--Beijing, 1 Jun (XINHUA)--A two-year senior training class in economic law will begin here soon to meet the urgent need for senior economic managers, legal advisors and lawyers, says today's BEIJING DAILY. The Academy of Social Sciences' Law Institute class will cover basic legal theory, China's constitution and Chinese and foreign economic laws. The first batch of 120 students will be chosen from Beijing. [Text] [Beijing XINHUA in English 1308 GMT 1 Jun 85]

CSO: 4020/237

PROVINCIAL AFFAIRS

GANSU RADIO URGES END TO LEFTIST, OUTDATED CONCEPTS

HK160225 Lanzhou Gansu Provincial Service in Mandarin 2300 GMT 15 May 85

[Station Commentary: "Further Eliminate Leftist and Outdated Concepts, Emancipate the Mind, and Speed up the Province's Economic Development"]

[Excerpts] In their reports on visits to and investigations in five other provinces, Provincial CPC Committee Secretary Li Ziqi and Vice Governor Hou Zongbin gave very important views on how to make use of the advanced experiences of other provinces to speed up economic development in Gansu. A key issue they mentioned was that of eliminating leftist and outdated concepts and further emancipating the mind.

Since the 3d Plenary Session of the 11th Central Committee, all fronts in the province have taken practice as the sole criterion for testing truth and completed the restoration of order out of chaos in guiding ideology. However, leftist influences and outdated concepts are still inhibiting some of the cadres and masses, and seriously hampering the work of opening up to the world, invigorating the economy, reforming and pioneering. These are expressed in most concentrated way in the fact that some comrades, especially leading cadres, are unable to organically combine sticking to principles with being flexible in implementing the central guidelines and policies. With regard to projects that have been accurately identified, they dare not clear away interference and act unswervingly to produce tangible results; instead they simply rely on the upper levels to fix the projects and provide capital. They cannot develop their own line of thought and have few ways of getting anything done. Certain other comrades fail to seriously investigate, study, and analyze new conditions and problems that have arisen, and are unable to produce any new policy decisions and solutions; instead they stick to the old regulations of the past and miss good opportunities.

We must therefore totally transform this mental state, emancipate our minds from leftist and outdated concepts, and view with new vision, thinking and feelings the new things that have emerged in economic construction in the province.

CSO: 4006/647

PROVINCIAL AFFAIRS

TIANJIN MAYOR STRESSES BETTER PRODUCT QUALITY

OW201005 Beijing XINHUA Domestic Service in Chinese 1610 GMT 18 May 85

[By reporter Shen Qifang]

[Text] Tianjin, 18 May (XINHUA)--Tianjin Mayor Li Ruihuan said today: Our four modernizations require not only quantitative increases in production but also improvements in the quality of products and services. Without good quality, high production speed and quantitative increases exist in name only, which could give rise to adverse consequences.

Speaking at a meeting held today by the Tianjin Municipal Workers Technical Association to sum up work and commend advanced individuals, Li Ruihuan analyzed the common problem of poor quality facing many trades and departments. He said that some leading administrative departments have been bogged down in mountains of documents and numerous meetings only because of their poor work quality. This has created trouble for the grassroots units, adversely affected their work, and delayed solutions to quite a few problems. The poor quality of service rendered to the general public has brought about inconveniences for the people in their daily life and also created losses for the state. Given the poor quality of products and projects, it would be much better for us to sell out our raw materials than to export our industrial products. Some famous brands of merchandize that exist in name have hurt consumers' interests. All these problems are incompatible with the requirements of our four modernizations.

Li Ruihuan criticized a number of enterprises for their idea that in "being a king's daughter, she does not have to worry about her marriage regardless of how ugly she is." He urged all trades and professions to establish a strong sense of holding themselves responsible to the state and the people and to set strict demands on themselves. He said that cadres of all levels and workers should strive to improve the quality of their work, products, and service in their own units or departments starting with themselves to do so. He urged them to make solid and better contributions to economic growth and the four modernizations.

CSO: 4006/643



ECONOMIC DEVELOPMENT ZONES

SHANGHAI ECONOMIC ZONE MEETING HELD IN HEFEI

OW210227 Hanoi Anhui Provincial Service in Mandarin 1100 GMT 19 May 85

[Text] The Shanghai economic zone's fourth theoretical discussion meeting ended in Hefei today after a 7-day session. The meeting studied the strategy for the development of the Shanghai Economic Zone, laying a theoretical foundation for building an open and [word indistinct] economic zone.

This meeting, held by the Shanghai Economic Sone Society and the Anhui Provincial Planning Committee, was the first theoretical discussion meeting ever held since the Shanghai Economic Zone was expanded to include four provinces and one municipality. Responsible persons of the Planning Office of the Shanghai Economic Zone and the 4 provinces and 1 municipality, and some 200 economic workers attended the meeting. They included (Wang Ming), (Guo Guangcun), (Bai Yang), (Fang Tian), (Chai Yilin), Huang Huang, Wang Yuzhao, (Yan Dong), (Cui Hua), (Yang Yuge) and (Huang Li).

Participants offered many incisive opinions and constructive suggestions on the following topics: [words indistinct]; good planning for the economic [word indistinct] developing energy sources and accelerating construction of transport facilities; improving management and enlivening finance, market and prices; developing foreign trade; reforming the urban industrial structure; developing the tertiary industry; importing, assimilating, developing and transferring advanced facilities; conducting technical transformation in existing industries; expanding horizontal economic ties; increasing technical cooperation; conducting professional training; stepping up the development of intellectual resources; harnessing Tai Hu, Changjiang Estuary and Huangpu Jiang; and comprehensively developing tourism.

Anhui Governor Wan Yuzhao proposed the establishment of a joint energy resources development company of the Shanghai Economic Zone through pooling funds to open up coal mines for running power stations to effect a joint coal and power operation. He also said that Anhui is willing to offer four coal mines with better production conditions for joint operation with other provinces. Representatives of other provinces showed deep interest in this idea. They made a special trip to visit and inspect (San Yi) and (Si Yi) mines and (Lehe) and (Tong Nei) power stations in Huainan.

CSO: 4006/643

ECONOMIC MANAGEMENT

PRC JOURNAL ON FUNDING ENTERPRISE TRANSFORMATION

HK280719 Beijing JINGJI GUANLI in Chinese No 3, 5 Mar 85 pp 25-26

[Article by Tan Xuemo [6223 1331 2875]: "A Method of Fund-raising for Technological Transformation in Enterprises"--responsible editor Liu Qichang [0491 0366 2490]]

[Text] One of major problems at present for the technological transformation in our enterprises is the shortage of funds. Where should we raise funds for the technological transformation? This is a question most of our enterprises show common concern about. We think that in raising funds for the technological transformation of our enterprises, we should pay attention to "flexibility" and "special policies." We should prevent the malpractice of "killing the hen for the egg" and "draining the pond to get all the fish," and should actually implement the policy of development the economy and increasing financial revenue. The "special policies" mentioned here mean that we should give appropriate preferential treatment to our enterprises for their technological transformation and adopt some special policies and flexible measures to provide our enterprises with the conditions for accumulating necessary funds.

In order to solve the problems related to our enterprises' shortage of funds for their technological transformation, we can adopt the method of "four people jointly carrying one sedan," in other words the method of the central government allocating some funds, local governments sparing some funds for this purpose, the banks providing some loans, and the enterprises tapping their potential in raising some of the funds. By this method, the state, localities, enterprises and banks jointly shoulder the burden of providing the funds. We should allow our enterprises the power and capacity to carry out technological transformation and to rebuild and extend themselves in order to develop new products with the funds raised by themselves. This does not demand that the state allocate additional amounts of money to our enterprises, but that it sets the policies for the enterprises. Of course, setting policies means giving money, but setting policies is much better than giving money. When our enterprises are provided with the funds, they should also have the power to spend the funds independently. After the enterprises have obtained approval for the general plans for their technological transformation, they have the power to make policy decisions on the concrete arrangement and management of the projects and need not apply for approval for everything.

We cannot adopt the method of the state allocating all the funds needed by the enterprises for their technological transformation. For, first, the state's providing investment funds for enterprises without compensation are poor. However, it is difficult for localities to raise all the funds needed. It is impossible for enterprises to raise the funds from their retained profits. Adopting the method of "four people jointly carrying a sedan," can give play to the initiative of the central and local governments, the enterprises, and the banks, and relatively satisfactorily solve the problems related to the shortage of funds.

To be more concrete, after the state has "relaxed control" over, and "transferred power down" to the enterprises, it should also adopt necessary policies to help enterprises raise funds for their technological transformation.

1. The income earned from price hikes on products of fine quality should be entirely retained by the enterprises for their technological transformation. The implementation of this method can promote technological progress in our enterprises and encourage them to improve the quality of their products, to develop products of fine quality, to develop new products, to expand sales markets, and thus to both enliven our economy and prevent reductions in the [word indistinct] revenue of the state.

2. The income that an enterprise earns from the floating price hikes on the products that it produces in excess of quotas and sells on its own should be completely retained by it for its technological transformation. In addition to the price hikes within the range stipulated by the state, we should also allow our enterprises to sell some surplus products at higher prices because of higher purchase prices of raw materials and negotiate sale prices. This will encourage our enterprises to try every possible means to increase their output. This will not only increase the supplies of materials and goods in our markets and thus enliven our markets and ease the contradictions between supply and demand, but will also enable our enterprises to obtain some of the funds needed for their technological transformation under the precondition of ensuring the financial revenue of the state.

3. We should allow our enterprises to retain, mainly for their technological transformation, the income that the enterprises have earned by exploiting their surplus production capacity and personnel and material resources to contract processing of goods and to conduct joint ventures with other units.

4. We should popularize the method of compensation trade. The production enterprises undertake responsibility for providing certain quantities of products within certain periods of time in exchange for funds provided by other parties for the enterprises' technological transformation. This is a kind of method which is characterized by voluntary participation and mutual benefit. It ensures the supply of materials and goods needed by other parties for their production and construction as well as helping to overcome old enterprises' difficulties related to the shortage of funds for their technological transformation.

5. We should appropriately raise depreciation rates. Depreciation funds should be calculated and transferred from profit and loss accounts in accordance with the "classification of depreciation periods for fixed assets" that has been formulated by the Ministry of Finance. The depreciation funds should no longer be delivered to the state but should be entirely retained by the enterprises for the renewal and technological transformation of their fixed assets.

6. We should relay the conditions on bank loans, and appropriately increase short-term bank loans. In order to support the technological transformation of our enterprises, our banks should grant preferential interest rates and give priority to providing loans for our enterprises' technological transformation, for the development of new products and technology, and for increasing the output of products of fine quality and well-known brands. The banks should provide low-interest or discount loans for technological transformation and allow enterprises to repay the loans out of profits before income taxes and should also appropriately lengthen the periods of repayment.

7. We should implement the policy of raising funds everywhere. All the localities and all the departments should support the enterprises in opening up various resources for their funds and voluntarily allow funds to flow by themselves between localities and enterprises, between departments and enterprises, and between enterprises themselves. We should also allow enterprises to issue shares through financial institutions to absorb the idle funds in our society and to encourage collectives and individuals to subscribe to the shares. Moreover, we can utilize foreign capital and set up joint ventures with foreign investors.

8. We should appropriately reduce readjustment taxes. In light of the scale of technological transformation and the demand for funds in different enterprises, we should reduce or allow exemption from readjustment taxes. For the small number of enterprises who still lack quite a large amount of funds in spite of having raised funds through all channels, we can even reduce their income taxes.

9. We should implement contracted responsibility for input and output. Thus we will link the investment by the state with increases in production capacity, the raising of technological levels, the increasing of product variety, the reduction of energy consumption, the quantity of products turned over, and the profit delivery and tax payments of our enterprises. In other words, when the state puts in a certain amount of funds, the enterprise should undertake contracted responsibility for a certain level of increase in its production capacity, the turning over of a certain quantity of products that meet the requirements for their variety and quality, and the delivery of a certain amount of taxes.

10. We should appropriately increase the share of foreign exchange retained by the enterprises that produce products for export.

11. We should return to our enterprises, in light of the different conditions in our various enterprises, a greater percentage of the environmental pollution charge paid by them, and let them use this for overcoming environmental pollution in their technological transformation.

Through the above-mentioned various channels, we will grant power to our enterprises, allow them to retain more money to raise funds for their technological transformation, and enable them to have greater decisionmaking power over their technological transformation. Our enterprises should carry out technological transformation while carrying on their production. They should not only maintain a steady rate of increase in their various economic and technological indexes, and continue to raise their economic results, but also ensure the quality and the timely completion of their technological transformation projects, create, through these projects, the expected economic results, and manage to do more things with less money, achieve both a satisfactory growth rate and economic results, and accumulate funds for further technological transformation. This puts more pressure on our enterprises, gives new stimulus to them, and also gives them new vitality. As a result, through continuously increasing input and continuous expanding production output, the funds retained by enterprises for their own disposition will continue to increase, and this will give rise to a favorable cycle.

Since our enterprises will have support of all sectors, including the central authorities, local authorities and banks, since they will be granted new vitality to raise their funds, and since their problems related to the raising of their technological transformation funds will thus been solved, our enterprises should satisfactorily and flexibly use these funds, carefully draw up their medium- and long-term plans for carrying out their technological transformation, and thus actually embark on the path of expanding their reproduction by intension.

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SHIJIE JINGJI DAOBAO ON GUANGZHOU'S TERTIARY INDUSTRY

HK260901 Shanghai SHIJIE JINGJI DAOBAO in Chinese 1 Apr 85 p 6

[Article by Guo Xiangdong [6753 2556 2639] and Zhang Xiangrong [1728 0686 2837] of the Guangzhou Research Center for Social and Economic Development: "The Tertiary Industry in Guangzhou Has Come Out of Nadir"--first paragraph is SHIJIE JINGJI DAOBAO introduction]

[Text] Without the tertiary industry, the key cities will be unable to maintain their position as centers. In the contemporary world, tertiary industry in the key cities not only provides services to the primary and secondary industries in these cities, but also provides services to the whole region, the whole nation, and even the whole world. At present, it is necessary to discard the old idea of the natural economy, which pays no attention to the division of work, and to regard the rational composition of the primary, secondary, and tertiary industries as a yardstick in appraising the economic development in the key cities. We must not simply lay emphasis on the total industrial and agricultural output value, but must change the main orientation of economic development to the overall development of the three major industries, attach great importance to the tertiary industry, and lay emphasis on the Gross National Product.

Tertiary industry in Guangzhou, which has come out of its nadir, has deeply impressed the visitors to this city. However, for those who are engaging in scientific research work, their interest is not in observing things, but in drawing theoretical conclusions from the facts.

The starting point of our study is to recall history and study the present situation. The history of Guangzhou's tertiary industry follows:

It has undergone a wavy development. Before liberation, Guangzhou had a comparatively developed tertiary industry. Many inhabitants were engaged in this industry, especially in commerce, finance, and the catering trade. In 1949, more than 60 percent of the employees were engaged in tertiary industry. This percentage is as high as that in many developed countries at present.

In the late 1950's, as a result of one-sidedly implementing the policy of "turning consumptive cities into productive cities," this industry soon went downhill. Employees engaged in tertiary industry dropped to 32.26 percent in

1958. During the period of readjusting the national economy in the early 1960's, this sector grew again and reached 38.3 percent in 1965. During the "Cultural Revolution," it went down hill again, and the percentage dropped to 31.9 in 1975, even lower than in 1958.

After the 3d Plenary Session of the 11th CPC Central Committee, which was held at the end of 1978, Guangzhou opened a breach in the field of circulation while enlivening the economy. Agitated by reforms both in the cities and countryside, there appeared the good trend of rapidly developing industry. The aforesaid percentage rose to 38.2, almost equal to that of 1965. In 1984, there was an increase of more than 16 percent in this industry.

The regrowth of the tertiary industry this time has the following characteristics:

-- Commerce and catering trade achieved the fastest development and became the main body of the tertiary industry. In 1983, the total retail volume of this city was 135 percent more than in 1978, much higher than the 58.32 percent increase in the total industrial and agricultural output value over the same period.

-- The development of the tertiary industry in the non-state-owned sector was especially fast. People can no longer regard the collective and individual economies in Guangzhou's tertiary industry as merely a simple "supplement to the state-owned economy."

-- The mechanism for regulating the motion of the main trades of the tertiary industry was shaped. In the commercial field and the catering trade, the law of value, which took the form of floating prices, was brought into fuller play.

-- Some key factors of the primary and secondary industries were shifted to the tertiary industry. After agricultural labor productivity had greatly increased surplus labor and funds appeared in the countryside. As the peasants found that Guangzhou's tertiary industry was a good place for their investments, where they could achieve better economic results, many of them went to the cities and towns to engage in this industry in recent years. At the same time, more shops were opened by the enterprises.

After recalling the past and contrasting it with the present, there are some further questions that need to be answered: Since the decline of Guangzhou's tertiary industry had something to do with the guiding ideology, then what should be the guiding ideology for the development of this industry in the new situation? What are the background theories? What is the economic law behind the vigorous development of the tertiary industry in the contemporary world?

The three industries form a socioeconomic structure. The primary and secondary industries directly engage in material production and produce visible products. The tertiary industry provides all kinds of services to the material production and creates conditions for the production and exchange of

commodities. It produces invisible products. The former is the basis, restricting the scope and quality of the latter; and the latter has a reaction to the former and ensures that the primary and secondary industries develop normally.

Along with the development of the productive forces, the increase of labor productivity, and the expansion and improvement of material production, the tertiary industry has been required to provide more services. At the same time, new resources, equipment, funds, and labor forces for the development of this industry have emerged. Thus, in the course of socioeconomic development, there has appeared the following new trend: The proportion of the tertiary industry in the national economy is constantly increasing and social resources are being shifted to this industry. In other countries, this trend is also called the "improvement of the industrial structure." The essence of this improvement is the evolution of the structure of social division of work resting from the development of the productive forces. The alternate swelling and shrinking of the primary and secondary industries will finally lead to the swelling of the tertiary industry. This is a general pattern of the development of the socioeconomic structure.

With respect to the distribution of the primary and secondary industries in a commodity economy society, there are differences in the division of work: the differences between industry and agriculture in the cities and the countryside; those between different productive groups in the cities; and those between various economic regions. All this has brought about exchanges of commodities, funds, technology, and information between the cities and the countryside, between various cities, and between various economic regions. These tasks are fulfilled by the tertiary industry. On the other hand, the key cities are performing the function of promoting the exchange, collection, and distribution of commodities, funds, technology, and information. From this we can see that the development of the tertiary industry is of great importance to the key cities. Without the development of the tertiary industry, the function of the key cities will shrink and wither.

Therefore, the service of the tertiary industry in the key cities must be extended. It must not only serve the primary and secondary industries of these cities, but must also serve the production of commodities as well as the exchange of the commodities between the cities and the countryside and among various cities and economic regions. Thus, the tertiary industry in the key cities has a "superfunction" of scattering and accumulating economic and technical information, that goes beyond the restrictions of the boundaries of the cities. The strengthen of this superfunction is determined by the scope and quality of the tertiary industry in the key cities. So, the tertiary industry is a kind of mechanism and organ of the key cities in promoting economic circulation in various districts.

From this we can see that the tertiary industry of the key cities must serve the primary and secondary industries of these cities and the economic exchange of the entire economic field as well. The proportion of the three major industries of the key cities is determined by the level of social productive



forces and the regional division of work. The level of the productive forces determines the minimum percentage of the tertiary industry in the national economy, below which the material production of the cities cannot be carried out smoothly; the regional division of work determines the maximum percentage of the primary and secondary industries. If this is surpassed and the primary and secondary industries, especially the secondary industry, are one-sidedly developed the key cities will be unable to give play to their function of serving the entire economic field. Thus, the function of the key cities will inevitably be dispersed or shifted to other cities and be thus weakened as a result of the competition between the former and the latter, leading to disruption of the system of regional division of work.

Judging from the development of the modern commodity economy, the regional division of work is playing an increasing role in the development of the tertiary industry in the key cities. In some developed countries, the tertiary industry of the key cities has broken away from the primary and secondary industries of these cities and has been geared to the needs of the whole region, whole country, or even the whole world. Therefore, to judge the economic strength of the key cities, we must not only take the primary and secondary industries into consideration, but must also, or even mainly, take into consideration the tertiary industry. Without the tertiary industry, the role of the key cities cannot be brought into play. In the key cities, if the quadrupling of the total industrial and agricultural output value is one-sidedly emphasized, more major resources will naturally be utilized by the primary and secondary industries, and the development of the tertiary industry will certainly be restricted. Therefore, it is necessary to discard the old idea of the natural economy, which pays no attention to the division of work, and to regard the rational composition of the primary, secondary, and tertiary industries as a yardstick in appraising the economic development in the key cities.

Guangzhou is the largest key city in the Zhujiang Delta, and in south China as well. It is a hub of economic development and communications in these areas and a center for "introducing advanced technology and strengthening cooperation with the hinterland." Promoting the tertiary industry of Guangzhou and increasing its proportion in the industrial structure of this city is a key problem concerning whether the function of the key city can be brought into play and whether the economic exchanges both inside and outside the country can be promoted.

Based on the above-mentioned theory and Guangzhou's realities, the target of developing the tertiary industry of this city should be: Establishing a multilayered, diversified, high-grade, and complete tertiary industry on the basis of improving the structure of the three major industries, and increasing its proportion in the gross output value to more than 50 percent and that of its employees to more than 55 percent of the total number of employees within 6 years.

-- Multi-layered: Regarding the areas it serves, it should be able to serve the Zhujiang Delta, Guangdong Province, south China, and the vast areas both

inside and outside our country; regarding the fields of service, it should be able to serve production and the people's livelihood, the increase of the scientific and cultural level of the whole society, and the improvement of public management; regarding the quality of service, it should be able to provide both technological and labor intensive services.

-- Diversified: All trades of the tertiary industry, despite their differences in the nature of service, should be developed, and a harmonized relationship between all these trades and a rational structure should be formed so as to provide perfect service.

-- High-grade: The trades belonging to the technology-intensive type, such as finance, science and technology, culture and education, consultation and information service, should become the main body and have a greater proportion in the tertiary industry, and they should be placed in the leading position; all trades of the tertiary industry must increase their quality, economic turns, and efficiency. For example, in commerce and catering trade, their equipment, service, and the quality of personnel should be improved.

To attain this aim, the following three measures can be adopted:

1. Promote the readjustment and improvement of the primary and secondary industries so that more major resources may be used by the tertiary industry. At present, in primary industry, the readjustment of the agricultural structure has already been started, which will result in shifting more funds and manpower into tertiary industry. In Guangzhou, the improvement of secondary industry is more important. Since in the course of improving secondary industry, the proportion of technology intensive trades has to be increased while those which are labor intensive have to be reduced, so that Guangzhou's secondary industry can give better play to its superiority, such as advanced technology and low energy consumption, and become more competitive both at home and abroad, the funds, manpower, and space thus released can be shifted to tertiary industry. In this connection, the most important thing is that we must resolutely reverse the trend of just laying emphasis on the total industrial and agricultural output value and merely pursuing the quadrupling of this output value and must shift the main orientation of our economic development to the development of the tertiary industry as a whole and attach great importance to this industry and the GNP.

2. Accelerate the development of tertiary industry in following two ways: First, by relaxing control of the market and promoting tertiary industry through various economic channels; second, by promoting tertiary industry with the state's financial subsidies. In some trades and fields, such as finance, real estate, transportation, commerce, and catering trade, the first method can be adopted so that they can be developed independently. But in the fields such as science and technology, culture and education, communications, and urban construction, conditions are not yet ripe for their independent development. So they need the state's financial subsidies. It is better to build less factories and put more funds into these sectors so as to enhance the function of Guangzhou as a key city and to ensure the steady development of

its economy. By developing these sectors, although less direct economic returns will be achieved, it will bring about greater social results. Thus, accelerating the development of these sectors is of immeasurable significance to the improvement of Guangzhou's economic structure as a whole.

3. In the near future, priority should be given to the reform of the financial system so as to promote the development of tertiary industry as a whole. Finance is the center of the commodity economy, which plays the function of allocating funds and promoting the circulation of funds. Whether more funds can be shifted to tertiary industry in the course of improving the industrial structure depends on how the financial field is enlivened. When this field is enlivened, tertiary industry will be further developed.

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ECONOMIC MANAGEMENT

WORKERS PLAY ROLE IN IMPROVING MANAGEMENT

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[Text] Shanghai, 25 May (XINHUA)--Young workers here in China's biggest industrial city are playing an important role in helping improve enterprise management, thanks to executives' encouragement.

The slogan "Be Masters of Enterprises" is catching on among young workers (those under 30), who account for over 60 percent of Shanghai's industrial workforce, a municipal trade union council said today.

Your workers' enterprise management groups began springing up in 1981. There are now 1,100, involving 110,000 people, or eight percent of Shanghai's young workers, said the municipal communist youth league committee today.

"They are thirsty for knowledge and desire to contribute their wisdom to China's modernization program," an official said.

Young workers make suggestions on how to improve management, modernize technology, develop new products and perfect vocational training. They also make technological innovations and overcome technical problems in their spare time.

A suggestion made by 14 young workers enabled the Shanghai No 16 cotton mill to increase profits by about 800,000 yuan in the first half of 1984. The mill employs 3,600 people, 65 percent under 30. Over the past 3 years, young workers' enterprise management groups have made 300 proposals and written 200 papers and reports on streamlining the mill.

The mill has registered an 11-percent increase annually in output value and a nearly seven percent drop in production costs. "Our mill's rapid growth is inseparable from young workers' management groups," said deputy director Zhu Ronglin.

Many managerial staff at the Shanghai No 12 chemical fiber mill believed this year's production quota of 2,500 tons per worker too high to be met.

But the director was convinced of being able to fulfill the target after receiving a report from a group. The report based its conclusion on the potential of machines to be drawn on and improved managerial standards.

Over the past few years, Yu Tijun of the Shanghai chemical raw material company has produced some [figure indistinct] papers on economic management. His book "An Introduction to Enterprise Management" will be exhibited abroad this year.

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ECONOMIC MANAGEMENT

BANK OF CHINA SUPPORTS TECHNOLOGICAL PROGRESS

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[Article by Ling Zhi [0407 1807], Vice President of the Bank of China: "Thoughts on the Active Support of Technological Advancement of Enterprises by the Bank of China"--edited by Liu Qichang [0491 0366 2490]--passages within slantlines published in boldface]

[Text] The Bank of China is a state bank specialized in dealing in foreign exchange. Since the 3d Plenary Session of the 11th CPC Central Committee, in the light of the demands of the development of the situation, the Bank of China has gradually expanded the scope of its operation and developed from a bank that mainly handled the business of settling international accounts into a bank that also handles the business of raising and applying funds. In particular, in order to meet the demands resulting from the policy of opening up to the outside world and enlivening the economy at home, we have carried out necessary reforms in our credit work and made breakthroughs in blazing new trails, relaxing our control and enlivening our operation: We have increased the categories of loans, expanded the range of loan customers, reduced the interests of our loans, simplified our procedures, made our methods more flexible, transferred downward the power to examine and approve the applications for foreign exchange loans and thus basically meet the demand of the development of the various sectors of our national economy and various localities. Recently, we have investigated the credit work of the branches of the Bank of China in various areas and found that quite a few of the basic level branches of the bank has accumulated some satisfactory experiences and methods in supporting the technological transformation of our enterprises: First, they have conscientiously implemented the party's principles and policies; second, they have supported the technological transformation in our key cities and key sectors; and third, they have paid attention to raising the economic results of the loans. In order to implement the four directives of the CPC Central Committee Secretariat on the principles concerning the construction of the capital, the Beijing branch of this bank has provided foreign exchange loans to actively support the development of Beijing's food, electronic, and light and textile industries and tourism. The loans to these four sectors accounted for over 50 percent of the total of the loans provided by this branch and this has vigorously supported the technological transformation in these sectors. Our branches in Tianjin, Shanghai, Wuhan, Nanjing, Chongqing, Shenyang and other cities have mainly supported the cities' light, textile, machine building and electronic industries in light of the strong points of these cities. The characteristics of the loans provided by these branches are:

They resulted in 1) more imports of appropriate advanced equipment; 2) more imports of technological software; and 3) more support to the development of new products. From the point of view of their economic results, all these loans have been satisfactorily provided. According to the statistics on 5,053 projects where the accounts have already been settled, the provision of each U.S. dollar in loans has resulted in an increase of 7.08 yuan of output value, 2.18 yuan of profit, and tax revenue, and earnings of \$1.36 of foreign exchange a year.

The Bank of China has had a history of several decades of doing business related to foreign exchange and has been running its operation of providing credit in foreign exchange and renminbi for a relatively long time. In its contacts with the various sectors, it has established close ties with the various sectors at home and abroad and a good reputation and has thus been provided with quite a few favorable conditions for utilizing foreign capital to promote the technological transformation and advancement of our enterprises.

/1. The Bank of China has great ability to raise foreign exchange funds and has diverse flexible methods and great adaptability in applying funds in foreign exchange and renminbi./ Its sources for raising funds are as follows: 1) It attracts deposits through its overseas branches and its branches at home. In particular, its branches in Hong Kong and Macao take deposits from thousands of families there, which constitute a major source of foreign funds for the organizations of the Bank of China to utilize. 2) It utilizes loans from foreign banks. The Bank of China has a fine reputation in the world and some big foreign banks are willing to provide loans to it. 3) It utilizes export credit, which is also called buyer's credit. The characteristics of this credit are: The interest rates are lower than those on loans in the financial market and the terms of repayment are relatively longer. 4) Recently, the Bank of China has been granted AAA status--the highest credit states--by the Japanese Credit Evaluation Institute. Not many banks in the world have been granted this status. For the first time, the Bank of China has been given permission to issue bonds in Japan and it has issued its first batch of Y20 billion in bonds.

In addition to raising funds and providing loans for some key projects of the state, a large amount of this bank's work is utilizing foreign funds to support the technological transformation of our medium-sized and small enterprises. At present, the Bank of China provides the following kinds of loans: short-term foreign exchange loans (including loans provided at preferential rates and at floating rates), buyers' credit foreign exchange loans, category A foreign exchange loans, category B foreign exchange loans, Renminbi loans provided together with foreign exchange loans, short-term loans for export credit, medium- and long-term loans for the exports of machinery and equipment (in other words, export sellers' credit), loans for enterprises with joint Chinese and foreign capital, foreign trade loans, foreign exchange loans provided through discounting bills, and low-interest loans. The foreign exchange loans are provided in the following kinds of currencies: U.S. dollar, sterling, Hong Kong dollars, Japanese Yen and Deutsche Mark. In the light of its needs, a borrowing unit can choose one, two, or more kinds of currencies to borrow. To help the technological transformation of medium-sized and small enterprises,

it mainly provides them loans at preferential interest rates. The terms for the loans can be long, medium and short. Generally, they are 3-5 years, out for a small number of enterprises, the terms can be 7-10 years.

Since 1982, the Bank of China has begun to provide special foreign exchange loans, which are of two kinds: The first is that the enterprises borrow foreign exchange loans, then the bank changes the loans into renminbi for the enterprises to use, and then the enterprises repay the bank loans with the increased income they earn; the other is that the enterprises borrow and use the foreign exchange and repay the bank with their increased income in renminbi. These special loans help overcome the difficulties of those who lack renminbi but have sources of foreign exchange and of those who have sources of renminbi income but lack foreign exchange.

/2. The Bank of China is characterized by its widespread links and operational network throughout the world./ The Bank of China has established branches in London, New York, Hong Kong, Singapore and Luxembourg and representative offices in Tokyo and Paris. It also has 14 associated banks in Hong Kong and Macao. At present, the Bank of China has agency business relations with more than 3,000 foreign commercial banks in 150 countries and areas. In order to coordinate with our foreign trade and strengthen international economic and technological cooperation, in light of the development of the bank's operation, we also plan to establish our institutions in Sydney, Tokyo, Paris, Panama, Chinatown in New York City, and Glasgow in Britain. We will gradually establish a banking network that can open up the market. We will gradually establish a banking network that can open up the market. We have trained a professional contingent of international banking workers and they have modern communications equipment. The Bank of China can also cooperate with the representative offices of the more than 60 foreign banks in Beijing, Shanghai, Guangzhou and Shenzhen to provide economic information for our country's medium-sized and small enterprises or make arrangements for economic departments and enterprises to make inspection tours abroad or to hold talks with relevant foreign businessmen on the projects that draw in foreign capital or introduce technology from abroad. Through utilizing these channels, the Bank of China can establish links and find customers for various departments, areas, and enterprises, provide them with information about foreign exchange and interest rates, the level of advancement of the technological equipment of foreign enterprises, their financial and credit status, and trends of commodity prices in the market. All these are handled by the various economic departments in conducting economic contacts with the outside world.

After an enterprise has obtained approval for a project to introduce technology from abroad, the Bank of China can provide it with an all-round service in all links including advisory services, provision of loans, the issuing of certificates, the payment of foreign exchange and settlement of accounts.

/3. The Bank of China can act as an adviser for our enterprises in introducing technology from abroad./ Now, many enterprises want to utilize foreign exchange to carry out technological transformation, but as they lack quick access to information, they do not know what kinds of appropriate advanced technology and equipment there are abroad or from what country they should import the



technology and equipment, so they do not know how to carry out their technological transformation. Since the Bank of China began to do foreign exchange loan business in 1973, it has supported tens of thousands of technological transformation projects of our enterprises and helped them to import technology from abroad. These projects have involved nearly all trades and industries and thus the bank has accumulated a large amount of data and experience on importing technology and equipment. Now, we are classifying, processing, and sorting out this data in light of the methods of introduction, the names of the countries and factories from which the technology was introduced, the time when it was introduced, the names of the products introduced, the prices, the time when the equipment was produced, the degree of advancement, the quality of and the market for the sales of the products produced by the projects after they were put into operation, and the economic results of these projects, in order to provide information for various departments, factories, and mines.

For a relatively long time in the future, supporting the technological transformation of our enterprises will continue to be a key link in the credit work of the Bank of China and we are determined to make vigorous efforts in the following fields:

/1. We will continue to satisfactorily do our current work related to the provision of credit and loans, actively develop new kinds of loans, and thus provide various kinds of funds for our enterprises./

The kinds of loans that the Bank of China is now providing have already basically met the various demands for funds by our enterprises. In the future, we must continue to satisfactorily do this business and expand the range of customers and scope of application of the loans. At the same time, we should actively develop new loans such as investment loans, and discount loans and other special loans for old liberated areas, areas of minority nationalities, border areas, and poor areas.

In order to simplify the procedures, provide convenience for our customers, and raise our work efficiency, the head office of the bank has already decided to expand the power of the branches in examining and approving applications for foreign exchange loans. The lending limit for our branches in Shanghai and Tianjin has been increased to \$10 million, that for our branches in Beijing, Dalian, Guangzhou, Fuzhou, Qingdao, Nanjing, Hankou, Hangzhou, Shijiazhuang, Nanning, Chengdu and Chongqing has been increased to \$3 million. This has allowed the branches in various areas greater flexibility and enabled them to more effectively support the development of local economic undertakings under the leadership of the governments there.

/2. It satisfactorily and flexibly uses the foreign exchange surplus of the state and enables the surplus to bring about greater economic results./ At present, the state has a relatively large amount of foreign exchange surplus. In order to speed up the pace of technological transformation in our existing enterprises, we have made an initial decision that in the next few years, we will allocate a fairly large amount of foreign exchange from this surplus and spend it in importing advanced technology and equipment from abroad. The Bank of China should make efforts to satisfactorily and flexibly spend the state's foreign exchange surplus. It should simplify the relevant procedures, reform

the old methods of examination and approval for providing foreign exchange loans, start its work by taking part in the planning for the projects to introduce foreign technology, the talks with foreigners, the advisory work, and the signing of the agreements, and thus coordinate with various departments to speed up the spending of the foreign exchange. Concerning the projects that have obtained the approval of the State Planning Commission and the State Economic Commission for using the foreign exchange surplus of the state, the Bank of China can adopt flexible methods to meet various demands of the enterprises and thus speed up the examination and approval for the provision of loans. The projects that use the foreign exchange surplus of the state can repay foreign exchange for foreign exchange loans, repay foreign exchange for renminbi loans, repay renminbi for renminbi loans, or repay renminbi for foreign exchange loans. The methods of repayment can be that the enterprises themselves repay the loans they borrowed or that the state, department, or area repay in a unified manner the loans borrowed by the enterprises under it.

/3. It actively supports the technological transformation of the key sectors of the state, and speeds up the pace of technological advancement./ For quite a long time to come, we should carry out our credit work closely around the key links of the state's construction and actively support the technological transformation and advancement of the key sectors. Concerning the arrangement of funds, we lay stress on supporting the development of the basic industries related to energy, communications, nonferrous metals and raw materials; vigorously support the technological transformation of our light, food, family electric appliance, building materials, automobile and motor-cycle industries so as to improve the quality of their products, develop products of well-known brands and fine quality, and substitute new products for old ones; and support the development of our scientific research, culture, education, and public health undertakings so as to combine the technology introduced from abroad with the work of tackling major hurdles and transform science and technology into productive forces as soon as possible. In order to speed up the introduction of technology from abroad and the development of technology and in order to promote technological progress, we should begin [to] provide, in light of actual conditions, "special loans or introduction from abroad and development of technology," and thus promote the technological progress of departments and trades.

In order to support "old liberated, minority nationality, remote, and poor" areas, the Bank of China plans to allocate some foreign exchange to provide them with discount loans. Concerning the projects for which applications have already been handed in, we should approve any of them for which conditions are ripe. In the future, we should continue to do a good job of investigation and study, grasp favorable local conditions and key links, give advice, actually help the various areas to satisfactorily finish doing some good things and boost the economic development of backward areas.

/4. We should support the development and construction of the coastal port cities, special economic zones, Hainan Island and other others./ Setting up investment consortia jointly with foreign banks to support the economic construction of coastal port cities is a task that the party and state have assigned to the Bank of China. We must strive to coordinate with these cities and areas and speed up the pace of utilizing foreign capital to introduce technology from abroad.

First, we should actively take part in the development planning of various areas, closely coordinate with our branches abroad and conduct various kinds of service activities for utilizing foreign capital and introducing technology from abroad including recommending customers, and providing advisory, trust, and leasing services.

Second, we should satisfactorily do the work related to discount and low-interest loans and support the technological transformation of our old enterprises. In arranging the provision of funds, concerning the projects that need little investment, have a quick turnover of funds, introduce advanced technology from abroad, and have satisfactory economic results, we should give priority to providing them discount and low-interest loans and satisfactorily do various aspects of work in order to speed up the spending of foreign exchange.

Third, in providing loans for large projects, we can adopt the method of jointly providing loans in cooperation with other specialized banks at home and selectively combining with foreign banks to organize consortia to provide loans or cooperate with foreign consortia to invest in the projects so as to open up new path for utilizing foreign funds.

Fourth, we should relax the policy related to the loans provided to enterprises with joint Chinese and foreign investment. In the past, we stipulated that we only provided loans for the floating funds of these enterprises and for the purchase of equipment such as fixed assets for their operational expansion. In the future, our loans will be extended to the scope of investment loans of (project loans) to be provided in the process of the construction of the projects and the loans for the share capital of the Chinese side. The loan limit can be raised to some extent for the projects as long as these projects introduce advanced technology, have good economic results, and have a market abroad for their products. By so doing, we will create convenient financial conditions for foreign investors.

Fifth, in accordance with the unified planning of the People's Bank of China in providing loans, we will also provide development loans for the coastal port cities which are already designated and approved by the State Council to be our economical development zones in order to give foreign businessmen financial support and create a good investment environment for them.

Sixth, for our open coastal port cities and special economic zones, our bank will have more flexibility in doing its credit business. Each of the coastal port cities and special economic zones has its characteristics and is different from the conditions in our hinterlands. According to the spirit of "handling special things in special ways" and "handling new things in new ways," the head office of our bank will imbue its branches with vitality and should not mechanically seek uniformity. With regard to the various services of providing credit and funds, we may adopt diverse flexible measures. As long as our enterprises have a demand for loans and our bank has the ability to provide loans, we may handle all affairs in accordance with all of the international customary methods and our country's historical methods which are suited to our current business such as providing consortium loans, providing

loans by discounting bills, providing loans for packing, providing loans for exports on bills of foreign exchange, providing mortgage loans, acting as an agent of the state to issue bonds, making trust investments, leasing, guaranteeing and witnessing.

Under the new situation, we must grasp improving our service as a major task and we must bring about the following changes in the style of our management: 1) We should change the practice of waiting for customers to come to that of actively going out to seek customers; 2) we should shift from merely providing loans to providing a complete set of services including credit, trust, and advisory services; 3) we should shift from examining and managing small projects to participating in the examination and negotiation of various kinds of large and medium-sized projects; and 4) we should shift from supporting a single project to supporting the all-round development of the trades.

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PRC TRAINS MORE BUSINESS EXECUTIVES, MANAGERS

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[Text] Beijing, 19 May (XINHUA)--Over 12,000 people are being trained as business executives, factory directors and managers in 76 institutes set up over [the] past 2 years, according to the state economic commission.

The institutes have a combined teaching staff of over 3,700.

In the past 2 years, they have trained over 10,000 business executives and factory directors.

China began to increase the number of such institutes in May 1983, before that, there were only five, with some 100 teachers. Enrollment was under 2,000.

The State Economic Commission today called for more and better such institutes so as to train a large number of entrepreneurs with a pioneering spirit in implementing the policy of invigorating the domestic economy and opening to the outside world.

All managers and directors and party secretaries of big and medium-sized enterprises will be selected from among the graduates of such institutes and other training centers and institutes of higher learning during the Seventh 5-Year Plan period beginning from 1986, the commission said.

Such institutes may offer part-time or full-time courses or adopt the credit system. Courses should include mathematics, computers, natural sciences, technology, international monetary affairs and trade in addition to applied management science, economics, labor and economic laws, the commission said.

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ECONOMIC MANAGEMENT

PRC FACTORY DIRECTORS DISCUSS ENTERPRISE REFORM

HK211035 Beijing JINGJI GUANLI in Chinese No 3, 5 Mar 85 pp 4-5, 26

[Article contributed by Research Institute on Work of China's Factory Directors (Managers): "Voice of Factory Directors and Managers"]

[Text] The Research Institute on Work of China's Factory Directors (Managers) convened its first annual meeting in Guangzhou at the end of last year. The delegates to the meeting discussed how to serve as good factory directors and managers, under the new conditions. At the same time, they made the following recommendations and requests on better implementation of the reform of the economic system.

I. The Problem of Expanding the Autonomous Power of Enterprises

1. Everybody felt that on the question of power expansion, both the central government and the enterprises were anxious to get started, but obstructions existed between the two ends. For example, around the "10 Articles on Power Expansion," many localities have compiled detailed regulations for their enforcement. This was what the 10 articles had asked for. Unfortunately in certain localities, the detailed regulations did not further affirm power expansion but actually imposed restrictions on it. Meanwhile, because certain localities had not yet compiled the detailed regulations, the relevant departments took it as a pretext not to delegate power. For example, some enterprises intended to grant promotion to 3 percent of their staff members and workers, but, because the provincial government had no detailed regulations to fall back on, the relevant departments rejected the enterprises' request.

The factory directors strongly reflected that at present various kinds of companies had mushroomed, coming into existence one after another. Many companies had formerly been administrative bureaus while some had been formed under "pressure" from above by administrative tactics. They had not yet become economic entities but exercised even more concrete control than the former administrative bureau. Some even went so far as to demand the six unifications, namely, unifying under their control personnel, funds, materials, production, supply and marketing. In some factories, overtime work had to be reported to the companies for approval. As a result, in the course of power expansion, the power of some of the enterprises was in reality reduced.

The meeting unanimously recommended that the CPC Central Committee and the State Council carry out in the near future a general survey and supervision on the question of the expansion of the autonomous power of the enterprises in the various provinces and municipalities, to enable the "10 Articles on Power Expansion" to be speedily enforced.

2. The "10 Articles on Power Expansion" stipulate that the "enterprises, on the prerequisite of fulfilling the state plan and the agreement on the supply of goods to the state, may; by themselves, arrange for the production of the goods for state construction and required by the market," and that "the enterprises may market, by themselves, the whole of products produced in excess of the state plan." However, at present, increased requirements have come forth from the various levels and for the same category of products, the state, province, city, and bureau-in-charge each have their own plans and demands. The planned production tasks assigned by the state generally have a shortage of 20 to 30 percent of the required raw materials to be filled by the production units while in the case of planned tasks assigned by the provinces, cities and bureaus, practically no guarantee is given on the supply of the required materials. As a result, nobody cares about the shortage in raw materials required by the enterprises while the surplus production of goods is exploited or taken away level by level. The factory directors recommended that all the products specified under a mandatory plan should be subjected to only one plan, that there must be an assurance of the supply of the raw materials, and that no level-after-level imposition of extra demands should be entertained. The "10 Articles on Power Expansion" prescribe that the products which the enterprises may market themselves and products which they have turned out in excess of the plan should all be subjected to handling solely by the enterprises themselves and no department should seize the benefits from the enterprise by force of power.

3. At present, the enterprises' retention of profits is rather small. At the same time, the regulations governing the use of the five kinds of sinking funds are very strict. Their hands are tied and they have no leeway to adjust to regulate the disposal of these funds. Originally, the enterprises themselves could use their limited self-retained funds to make one or two major accomplishments in production, or in operations, or for staff welfare. However, restricted in this way, they can only disburse the funds on various specified projects. Since we began delegating power in 1979 until now, this problem has not been solved from beginning to end, the principal reasons being the fear that the enterprises may "divide and eat up" all the funds. Since the "decision" of the 3d Plenary Session of the 12th CPC Central Committee has clarified that enterprises "have the power to hold and distribute their own funds," they hope that in the process of the second step in converting the delivery of profits to payment of taxes a concrete solution of this problem will be made.

4. Enterprises must have vitality and it is most important that the staff's income be linked to the economic benefits of the enterprise. It has been said that bonuses have no ceiling but then the regulation is that the bonuses of staff members and workers of enterprises under the system of ownership by the

whole people which are in excess of an average of two and a half months' pay are subjected to the payment of a bonus tax. Hence, in reality, there is a ceiling after all. Many people feel that at present our country is enforcing a system of low salaries and wages and that in general two and a half months' pay is only a little over 100 yuan. Thus, the collection of a bonus tax is not suited to the current actual situation and is hard to enforce. In addition, bonus payments to staff members and workers of collective enterprises and enterprises in towns and villages are not subject to the tax. As a result, these enterprises can make use of a high-income policy to induce talented employees of enterprises owned by the whole people to join their ranks. In fact, this problem has aroused the resentment of many factory directors and managers. For this reason, the majority of people have urged abolition of the bonus tax and experimented with the system of linking the gross volume of payment of salaries and wages to, and allowing it to float in unison with, the profits and taxes. But a portion of the comrades still believe that the bonus tax is still needed, although it should not apply "indiscriminately" but should be determined according to the concrete conditions of different localities and different trades.

5. The central government has repeatedly affirmed that the enterprises are empowered to decide on the establishment of their own organs, but, at the lower levels, this affirmation can hardly be carried out. At present, the upper-level departments are still adhering to the old practice of a specialized examination of new organs and those which have not attained a certain status are disqualified from acceptance. To deal with this situation, some enterprises have resorted to the practice of hanging up several signboards over the same organization. The key to the solution of this problem is that both the upper and lower levels should undertake reform in unison and that the upper-level organs should truly resort to retrenchment and delegating their power. It is best that they desist from the complex procedure of examining and evaluating new organs.

## II. The Problem of Enforcing the Factory Director Responsibility System

1. Following enforcement of the factory director responsibility system, the factory director is vested with full responsibility for a factory's production and operations. Some enterprises have followed up with the forming of a factory management committee of which the factory director is the chairman and has the decision making power. But at meetings of the party committee, the factory director and the deputy director together have only two votes. In the event that the factory director's views are overruled, what should be done? Many factory directors have pointed out that the solution of this problem cannot depend on the good personal relationship between the factory director and the party committee secretary. It is still necessary that things be definitely clarified both organizationally and in accordance with a definite system.

2. In an enterprise, does the separation of the party from the administrative functions necessarily require that the factory director and the party secretary must be two separate persons? Many factory directors, speaking from



their own personal experience, believe that in the case of medium-sized and small enterprises, one person should concurrently hold the jobs of factory director and party secretary and if a full-time assistant secretary is included in the set-up, it will help the work as a whole.

3. The relationship between the factory director responsibility system and the staff members and workers being masters of the house must definitely be thrashed out both in theory and in practice. Is the employees representative conference still an organ of power and authority? Is it necessary that the important decisions of an enterprise must be approved by the representatives conference? Opinions differ in this connection. It is hoped that the upper-level organs will clearly indicate their views after having carried out a few experiments.

4. Certain comrades have reflected that at present, some factory directors, during their tenure of office, have combined equipment and drawn upon the reserves with the result that for a time the economic results of their enterprises have greatly improved and the staff members and workers have obtained increases in their income. However, taking a long-range view, this is not beneficial to technical transformation or to the development of new products, or to the development of the enterprise. Factory directors acting in this way have frequently received commendation and are supported for a time by the staff members. But by the time of their retirement in glory, how can their successors carry on? In enforcing the factory director responsibility system and the system of the factory director's tenure of service, these conditions deserve adequate attention.

### III. The Problem of Enlivening Large Enterprises

1. The profit retention of large enterprises generally tends to be on the low side. Large enterprises are relatively stable, have a fairly good foundation, and their 1983 profit showings were fairly high. The method of changing profit delivery to tax payment has specified 1983 as the base year. This is the principal reason for the profit retention of large enterprises being on the low side. Some factory directors pointedly commented that regardless of the enterprises being large, medium-sized or small, and regardless of their being advanced or backward, to take 1983 as the base year for tax payment in lieu of profit delivery is disadvantageous to bringing the enthusiasm of large enterprises and advanced enterprises into full play. The majority of people have recommended that assessing the performance of enterprises should not be confined to a comparison with the enterprises' own historical level. Rather, standards of the whole trade on a locality, provincial, or national basis should be set up for horizontal comparison of the performances between enterprises of the same trade. It would be more appropriate to use the average figure of the whole trade as the base for profit retention of the large enterprises and progressive enterprises, or to use the unit's average figure for the preceding 3 years.

2. Fixing the depreciation rate in an arbitrary manner or on a "universally applicable" basis hinders the technological progress of large enterprises.

Large enterprises have a serious problem with the ageing of their equipment. Using an identical depreciation rate may be excessive for a new factory but may be insufficient for an old factory. It is recommended that the depreciation rate of large enterprises (mostly old enterprises) be raised to 10 percent, to promote their technical progress.

3. At present, the State Council's policy on reform of the economic structure should be generally observed by the various categories of enterprises. It is recommended that in accordance with the different special features of large, medium-sized and small enterprises, enterprises owned by the whole people and enterprises owned by the collectives, and enterprises of different industries and trades, guidance should be instituted in separate groups and the corresponding policies should be made public. For example, large enterprises should be clearly endowed with the power of developing new products, the power of carrying on foreign trade, and so on. Delegates from Qinghai and Xinjiang reflected that large enterprises in far-off border areas had mostly been moved in from the outside and were beset with many difficulties. They hoped that some special policies could be formulated for them.

#### IV. The Problem of the Enterprises' Heavy Burden of Social Obligations

This has been an outstanding problem for many years and is still not settled at present. Certain factory directors have commented that the present social obligations of the enterprises are much heavier than before. Despite repeated urgings from the central government to reduce the social obligations of the enterprises, recently there has been an increasing number of requests for sponsorship and contributions. This has seriously consumed the energy of the enterprises' leadership and expanded and diverted their financial strength. They jointly recommended to the State Council to clearly stipulate that enterprises, after having paid their taxes, should not bear the burden of any other social outlay.

#### V. The Problem of Unhealthy Practices in the Course of reform of the Economic Structure

Certain comrades have pointed out the appearance of certain pessimistic phenomena in competition recently and asked that due attention be paid to them. For example, some small factories have invited government officials to serve as their advisers. These officials have made use of their power and authority to protect the small factories' production, supply, and marketing activities and to sell the products of the small factories first before the products of the large factories. Despite the fact that the large factories' products have earned gold and silver medals for them and are generally held in good esteem, still they have fallen behind the small factories in competition. Some factory directors said: The large factories have a strict financial system and must abide by discipline. On the other hand, the small factories have the nerve to send gifts to develop good relations. As a result, many cadres and their children openly, or covertly, take part in contracting with the small factories, earning illicit profits therefrom. Regarding such practices, although the central government has issued orders

strictly banning them, because concrete steps have not been taken to follow up, they are still prevalent among the lower levels. In the opinion of some factory directors, should this development persist, we would be farther away from the separation of government from enterprises. They hope that the relevant departments will adopt effective measures to promptly rectify the unhealthy practices in the course of the reform of the economic structure.

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## SHIJIAZHUANG'S 'STRIKE AND REFLEX' TYPE OF REFORM

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[Article by the investigation unit of the State Restructuring of the Economic System Commission, Hebei Provincial People's Government Office on Reform of the Economic Structure, and a XINHUA News Agency reporter: "An Investigation on Shijiazhuang City's 'Strike and Reflex' Type of Comprehensive Reform"--edited by Ding Jiatiao [0002 1367 4383]--passages within slantlines published in boldface]

[Text] Editor's note: Shijiazhuang City took the enlivening of the enterprises as its central task and carried out the method of "strike and reflex" type of comprehensive reform. The reform conforms with the basic spirit of the "Decision of the CPC Central Committee on Reform of the Economic Structure" adopted at the 3d Plenary Session of the 12th CPC Central Committee. It meets the demand of the objective economic law. Hence, it has developed rapidly and achieved notable results. The city's experiences are worthy of close attention and emulation. [end editor's note]

Shijiazhuang is a newly-risen industrial city. It has a population of 1.67 million, of whom 0.87 million live in the city proper. It has over 500 industrial and communications enterprises. It has transport facilities, and rich resources, possessing all the good conditions for economic development. Since 1984, under the leadership of the city party committee and the city government, and following investigation and creative efforts made by the populace, it has traversed a new road of the "strike and reflex" type of comprehensive reform, taking the enlivening of the enterprises as the central work. This has materially promoted the development of its economic, scientific and technological, educational, cultural and public health enterprises, and the whole city has displayed an unprecedentedly good situation.

## Changing Old Concepts and Correctly Selecting Breakthrough Points

The comprehensive reform of Shijiazhuang's economic structure has gradually developed since early last year. In order to seek the correct guiding ideology, methods, and steps for the reform, the city CPC committee and the city government did a large amount of investigation and research work. The secretary of the city CPC committee and the city mayor led a number of cadres to go deep into the factories and rural villages, to collect and sum up

typical experiences, and proceeded to various localities in Jiangsu, Guangdong and Sichuan provinces, which had started their economic reforms early, to learn and investigate. They deeply felt that in order to perform well the job of economic reform of the city, it was first necessary to solve the problem among the leadership cadres of their being politically slow and dull and of their thinking being ossified, and to clearly advocate the realization of the transformation of the guiding ideology on 10 counts. The principal ones were: Breaking the bondage of "leftist" thinking, and boldly and in an assured manner, carrying out the policy of enriching the people; breaking the concept of being anxious to enforce the transition to the economy of the unilateral system of ownership by the whole people and resolutely implementing the guideline of the state, the collectives, and the individuals advancing in union; breaking the erroneous viewpoints that the practices of everybody eating from the same big pot" and "the iron rice bowl" exemplify the superior features of socialism, and truly enforcing the principle of distribution according to work; overcoming the state of carving up spheres of interests between departments and localities and between urban and rural areas and of locality blockades and fully displaying the absorption power and radiating function of the cities serving as the economic centers; breaking the traditional ideas of closing the doors and making one's self supreme within, and actively developing economic and technical interflow and cooperation both internally and with the outside, and so on and so forth.

At the same time, through investigation and analysis, they have come to understand a truism: Enterprises are the cells of the social economy, the staff members and workers constitute the source of their vitality and the enterprises and staff members and workers provide the original motive force for economic development. Only by means of arousing the enthusiasm, initiative, and creativeness of the enterprises and of the staff members and workers can we more rapidly develop the social productive forces and further improve the economic results. However, in truly arousing the enthusiasm of the enterprises and the staff members and workers, on many sides we are restrained by the existing ossified structure and policies which cannot meet the demands for the development of the productive forces. Adhering to the CPC Central Committee's guideline of "internally enlivening the economy and enforcing opening to the outside," they looked for a way out in the reform of the structure, endeavored to moderate the concrete policies, and, within the realm of their own power and authority, did their utmost to carry out the reform, concentrating their attention on enlivening the enterprises and taking the strengthening of the vitality of enterprises as the "breakthrough points" of the reform and as the central link. Simultaneously, they made use of the "lashing forces" of the reform of the enterprises and in accordance with the needs of enlivening the enterprises, proceeded, in a planned manner, systematically and with a set purpose, to reform the production relations and reform the points and links within the area of the upper structure which were unsuitable to the development of the productive forces, thus gradually forming a reform infrastructure of a comprehensive nature. In concrete work, they principally helped the enterprises to fight for "power," and not simply to seek "profits" for them. Moreover, from beginning to end, they firmly insisted on being "bold enough in two respects," namely, daring to support

those new things in the course of the reform which benefit the development of the productive forces and can correctly handle the interest relations of the state, the collectives, and the individuals; and also daring to promptly call a halt to acts which run contra to the general direction of the reform and damage the interests of the state and of the people, and to guide them to the correct and proper track.

They rejected the antiquated procedures of generally resorting first to the abolition and merging of structures, changing the business signboard, and simply and singly attending to the transfer of the administrative power of the state organs but failing to devote efforts to enlivening the enterprises. Actual practice has shown that their method of procedure has a clearcut direction and centralized objective, meets with little resistance, and reaps quick results. It not only avoids arousing people's worries but also ensures that the work is in accord with the objective demands of economic development, progressing speedily and in a healthy manner.

#### Enforcing the "Strike and Reflex" Type of Reform Centering on Enlivening the Enterprises

After properly selecting the "breakthrough points" in the reform of the economic structure, and with the support of the leadership comrades of the provincial party committee and the provincial government and the relevant provincial departments, the city CPC committee and city government tightly grasped this central link of enlivening the enterprises and, proceeding from points to the surface, from cells to the whole structure, and from individual projects to the comprehensive whole, carried out the comprehensive infrastructure of reform of the "strike and reflex" type. Concretely speaking, this means using the various kinds of demands for reform found in the source of enlivening the enterprises to challenge and strike against the existing rules and system unsuitable to the development of the productive forces and urging the committees, offices and bureaus of the city to consciously carry out the reform in accordance with the demand for enlivening the enterprises. After these reforms are reflected to the enterprises, the enterprises' vitality is correspondingly augmented and they naturally will bring forth new demands for reform, which again urges the relevant departments to carry out further reforms. Thus following this recurring and alternately striking-reflecting-striking again-reflecting again, reform of the city's economic structure has been continuously pushed forward to a new stage. By so doing, they actually first delegated power and followed up with streamlining, that is, encouraging the enterprises to demand power and supervising the departments in delegating their power. With the departments consciously releasing and delegating their power, separation of government from enterprise was truly realized, thus first enlivening the enterprises and following up with reform of the organization structure. Theoretically speaking, this is tantamount to employing the development of the productive forces as the prime motive force to challenge and strike against the direction and links not suited to the development of the productive forces in the production relations and the superstructure. Counteractions to the reform on the part of the production relations and superstructure in turn further promoted the development of the productive

forces, following which the various relations in the economic structure were gradually smoothed out, forming a benign cycle for the development of the whole economy.

This "strike and reflex" type of comprehensive reform, in the course of its development, has been carried out on many sides and at many levels. Up to the present, in general it has gone through three rounds of progress.

/The first round developed around the enterprises seeking enforcement of the contracted economic responsibilities system in order to improve and perfect the distribution relations between the state and the enterprises./ In early 1984, the city CPC committee and the city government, summing up the experiences and lessons gained in the 1983 reform, discovered that the 20-odd industrial and commercial enterprises which had enforced the system of contracted economic responsibilities and profits had all achieved notable economic results. Many units, enlightened by the successful experiences of these enterprises, were asking for the enforcement of this system of contracted economic responsibilities and profits. Following an earnest study and examination, the city CPC committee and the city government openly and clearly advocated that under the prerequisites of firmly insisting on collecting taxes in lieu of delivery of profits and thus protecting the state's interests, the great majority of the enterprises would be allowed to copy the experiences of the rural reform, to introduce the system of "contracting" to the cities, and enforce the economic responsibility system which contracts for a profit target and closely integrates the responsibilities, power, and interests of the enterprises. Nevertheless, the enterprises were generally concerned that the relevant departments might not be able to keep their word at the end of the year. Accordingly, they demanded that the city establish a "commission which oversees the keeping of promises" and at the same time they asked that policies be liberalized so that the enterprises could operate freely in production and operation. This directly challenged the relevant concrete regulations of the departments of finance, taxation labor wages and banking. As a result, these departments, complying with demands of the city CPC committee and the city government, made an intensive study and investigation of the enterprises and speedily came up with a scheme organically integrating the system of tax in lieu of profits with the system of the contracted economic responsibilities, ensuring the continuous increase of the national income and also benefitting the reform program which strengthens the vitality of the enterprises. The salient points were: In the case of industrial enterprises owned by the whole people the profits of which average over 500 yuan per person a year, the system enforced was one calling for a contracted profit target with floating bonuses linked to taxes or profits, with no top ceiling and no bottom limit. As for small industrial and commercial enterprises owned by the whole people, the system enforced called for state ownership, operation by cooperatives, tax paying according to regulations, and being solely responsible for profits and losses. Regarding enterprises making small profits, the system called for delivery of profit according to a fixed norm in excess of which the enterprises would be entitled to a retention on a percentage basis. As for enterprises suffering from deficits, fixed subsidies would be paid but not in excess of a norm and the enterprises could retain the profits earned

and any portion below the anticipated deficits. Collective enterprises must enforce independent accounting, autonomous operation, democratic management and sole responsibility for their profits and losses. At the same time, in regard to the use of labor power, granting of bonuses and enterprise management, the autonomous power of the enterprises was also correspondingly extended. All these reform measures were formed into 24 articles of regulations of a policy nature embracing 8 different sectors. They were promulgated and enforced following approval by the city CPC committee and the city government.

/The second round developed around the further enlivening of the enterprises and extending the enterprises' decisionmaking power in production and operations./ Following the reflexing of the measures of the first-round reform, the enthusiasm of the enterprises was raised and demand was made on the relevant departments for further extending the scope of the reform and providing the enterprises with more conditions for autonomy. This naturally went against certain concrete regulations on planned control, control of commodity prices, control of cadres and bank credits and loans. As a result, the relevant departments, based on the information feedback from the enterprises, again formulated a second batch of reform measures which, following approval by the city CPC committee and the city government, were formed into 28 policy documents, composed of over 300 concrete regulations. The principal ones among them were: On the planning side, the city would be concerned only with the production of products of large enterprises owned by the whole people and production of the major products of the state. It would completely release control of the production of small enterprises owned by the whole people, production of collective enterprises, and production of general articles. Even in regard to products under the control of the state, the enterprises, following fulfillment of the production plan, were entitled to organize further production on their own. At the same time, permission was given to the enterprises, based on their own conditions, to carry out diversified operations. In regard to commodity prices, control of the over 1,700 kinds of products under the city's control, with the exception of some 50 kinds of commodities, was completely released. On some 200 kinds of products under the control of the province and the central government, a fixed range of floating prices was enforced. As for those consumer goods with a bearing on the people's livelihood, control of the prices at the middle stages was released subject to the prerequisite condition of the retail sales prices remaining intact. On all of the three categories of small commodities and on vegetables, market prices were enforced. At the same time, regarding the prices of products produced by the enterprises from self-purchased raw materials, permission was granted for the observance of the principle of high sales prices for raw materials purchased at high prices and low sales prices for raw materials obtained at low prices. On the side of management of cadres, the factory director (manager) responsibility system was enforced. Factory directors (managers) were appointed by the departments-in-charge, or by democratic election, or by open invitation to apply for jobs. Deputy factory directors (assistant managers) and cadres below the middle level were to be appointed or dismissed by the factory director (or manager). In the case of bank credits and loans, the conditions for the opening of bank



accounts were liberalized. All units doing independent accounting were entitled to open bank accounts, to close their books at stated periods, and to make loans, subject to the payment of floating interest rates on loans granted on the basis of the amounts of sales funds.

/The third round developed around the enterprises having developed and created the external conditions for the reforms to fit in initially./ Following the further extension of the enterprises' autonomous power in production and operation and the enterprises themselves having really begun to be enlivened, they naturally followed up with demanding the power to carry out self-transformation and self-development, to organize specialist cooperation on a large scale, to reorganize and to merge, and to speed up the renovation of equipment and technical transformation so as to reinforce the enterprises' adaptability and competitive power. Thus, reform of the enterprises came into direct conflict with the control systems of the demarcation between departments and localities, demarcation between the cities and the countryside, "ownership by the departments," and "ownership by the localities." There were urgent needs for smoothing out the circulation channels, developing diversified forms of pre-production and post-production services, and extending economic and technical exchange within the country and with the outside. Demands were made for corresponding reforms on the systems of commodity circulation, municipal construction and scientific and technical education, and for strengthening economic legislation and economic supervision. Based on these new conditions emerging in the course of the reform and after summing up the actual practices of reform in the preceding two rounds, the city again organized the relevant departments to formulate the third batch of reform measures, comprising over 400 regulations. The principal measures were: Countering the problems existing in the circulation sector, the second and third grade commercial wholesale stations were merged and 10 trade centers of the liberated type were formed handling materials, industrial products, and agricultural and sideline products. In addition, the city set up in the suburbs 4 comprehensive wholesale trade markets for agricultural and sideline products and opened up 37 morning and evening markets. The retail sales central stores were abolished, smaller commercial accounting units were planned, and a circulation network was initially formed which comprised diversified economic forms, diversified operation methods, a large number of channels and few intermediate stages. In municipal construction, the procedure of peasants entering cities for business purposes was simplified, the power of sanctioning the planning of construction projects was liberalized, and granting of permits to peasants to build houses as commodities was also liberalized. Facilities were provided to relevant units both in the city and from the outside to build service networks and stations for commerce and the restaurant trade, thus effectively promoting the growth of tertiary industry. In the field of science and technology, scientific research units owned by the whole people and engaging in research on the application and development phases actively promoted the systems of compensatory agreements and contracted research topics. In addition, certain scientific and research institutes run by collectives and individuals which were solely responsible for their own profits and losses were established. The city scientific commission and personnel bureau successively called several large-scale conventions for the exchange of scientific and technological

knowhow and the interflow of talent. Some 21 provinces and municipalities and over 90,000 people took part in these conventions. Scientific and technical service work and inquiry offices on science and technology were also greatly strengthened. In education, a system for appointment of teachers was instituted; fifteen secondary schools have been changed into vocational schools, and they have joined hands to set up five new secondary technical schools; and 4 colleges for staff members and workers and 20 private schools were newly established. The middle schools universally organized learning classes on science, technology, and culture for employed staff members and workers. The whole city was enveloped in a warm enthusiasm for studying. Simultaneously with enlivening the economy, certain measures on economic supervision and awards and penalties were also formulated. A notarization office, legal advice office and a lawyer's office were formed. Preparations were made for the establishment of an economic court, striving for gradually achieving the objective of having all economic activities abide by the law and prosecuting all law-breaking activities. Following the intensified development of the reform of the enterprises, at present the problem has reached the stage of "striking" against the establishment of government organs and their functions. At present, the city is engaged in studying how to carry out the next round of the reform revolving around the theme of retrenchment of government organs so as to make the superstructure able to render better services to the enterprises.

#### Vitality of the Economy Strengthened; Changes Attracting People's Attention

Although Shijiazhuang City has not had long to carry out the "strike and reflex" type of reform with enlivening the enterprises as the central task, the city's vitality has been noticeably strengthened and a series of changes attracting people's attention have already appeared:

/1. The enterprises have obtained comparatively full autonomous power and begun to be truly enlivened./ After several rounds of the "strike and reflex" process, the departments of economic control have actively delegated power, and the enterprises' bondage has been loosened. The city's departments-in-charge, apart from relaying to the enterprise the mandatory plans from the departments above the provincial level, no longer add any mandatory targets and the enterprises have been arranging their production in accordance with market needs, having been allowed to engage in "diversified operations though principally confined to one trade." On such matters as the purchase and marketing and fixing the prices of the products, labor management, distribution of salaries, wages and bonuses, technical transformation and renovation, the enterprises have obtained a fair amount of decisionmaking power, beginning to have before them a wide horizon for their endeavors. In the course of our investigation, of the scores of factory directors and managers we contacted, not a single one complained of having too little power or was intent on asking for power and money from above. What they thought of, and talked about, was that since the state had given them so much power, how they should make good use of it and how they should proceed to mobilize the entire staff of their plants to fully display their subjective activity, use well the conditions before them and, with a free hand, achieve a record accomplishment. From

them, we can see the initiative and enterprising spirit and the sparing-no-effort style of work which socialist enterprises have initially radiated in the course of the reform.

/2. Disparities in income between enterprises and between the staff members have been rationally widened./ Shijiazhuang's system of contracted profit target and fixing the ratio of bonuses in accordance with taxes and profits has directly linked the enterprises' profit retention and granting of bonuses to the upward delivery of taxes and profits. This, together with the level-by-level contracting inside the enterprises carried out in a down-to-earth manner and the clear regulating of responsibility, power and benefit, have fairly well solved the problem of egalitarianism in distribution. For example, in the Guangming industrial company, a collectively owned concern, after observing the prerequisite of paying taxes according to law and making a full retention of development funds, in 1983 the distribution of income per person was 2,200 yuan and is expected to exceed 3,000 yuan in 1984. On the average, this was higher by 100 to 200 percent than other enterprises in general. In the Shijiazhuang City paper mill, which is owned by the whole people, the monthly bonus received by some staff members was as high as 360 yuan while some staff members not only were not granted any bonus but also had part of their basic pay deducted. Because the method they enforced truly demonstrated the principle of distribution according to work, had been carefully checked and sanctioned by the relevant departments, had gone through democratic discussion by the staff members and was governed by a set of scientific and stringent regulations, the disparities in income derived therefrom were actually perfectly reasonable. The staff not only did not make any comments in opposition but also felt gratified by the working of the system of more work more pay. As a result, the disparities in income have truly become effective measures stimulating the progressive ones, urging on the backward ones, and generally arousing all-round enthusiasm.

/3. Finding a correct road to developing cooperation and integration between enterprises./ Having obtained relatively fuller autonomous power and for the sake of strengthening their competitive power and seeking further development, the enterprises are urgently seeking the enforcement of specialist cooperation and various kinds of economic combines among themselves. Guiding action according to circumstances, the city led them to form some 20 economic combines, all based on the inner relations in production and operation, the principles of voluntary consultation, equality and mutual benefit, equal enjoyment of benefits, bearing the risks jointly, and breaking the restrictions of departments and localities, urban and rural areas and the system of ownership. These combines were all economic organs, being mostly combines of the loose type. Constituents of the combines insist on the "three invariables"; namely, nature of ownership of the enterprises unchanged; administrative leadership relations unchanged; and the channels of delivery of taxes and profits unchanged. Inside the combines, the system of "free courtship" between the enterprises is stressed. The role of the city government and of the departments-in-charge is not that of a "marriage broker bureau"; they do not select or recommend the brides or bridegrooms and do not apply and administrative compulsion. As a result of this kind of cooperation and

combination conforming with the demands of socialist large-scale production and development of the commodity economy, within a short period of time notable economic results were obtained. For example, in 1982 and 1983, the Huabei machine building plant and the Shijiazhuang motor vehicles plant jointly produced a total of over 4,700 motor vehicles. In August 1984, the Huabei machine building plant, acting as the "dragon head," combined with some 50 units inside and outside the province to form the "North China Motor Vehicles Industrial General Corporation," expanding the production of over 80 kinds of motor vehicle parts, carrying out specialized production, and, without any investment from the state, produced 15,000 motor vehicles in 1984. The production this year is expected to be 50,000 units.

/4. Prices of commodities under city control basically loosened and liberated./ In the course of the reform, Shijiazhuang City paid great attention to employment of the law of value and to bringing the role of the economic levers, particularly the regulatory role of prices, into full play. They joined together the reform of the price system with the reform of the price control structure, actively and carefully looking for a road of reform which runs from few to many, from narrow to broad, and scores a layer-to-layer breakthrough. Up to the present, the prices of city controlled commodities have been basically liberated and the enterprises may fix their own prices. On commodities of a highly selective and seasonal character, such as garments, cotton prints, radios, and bicycles of ordinary brands, floating prices are enforced, that is to say, the prices fixed by the state are taken as the base and fluctuations above and below within a prescribed range are allowed. High prices for superior-quality goods are quoted on locally produced goods of high quality. The retail sales prices of some 49 kinds of commodities which tended to be too low, such as iron pans and products of prime pieces of meat, are appropriately raised. At the same time, regarding agricultural and sideline products, the sphere of consultation prices and free-fixing of prices has been greatly extended.

Seen from the conditions of the market, price reform in Shijiazhuang really has accomplished the state of being enlivened but not disorderly. Commodity prices derived through implementation of the system of negotiated prices and that of free price-fixing were found to be stable and slightly tending to the low side. For example, in the case of the price of vegetables, they were all successively liberated in 1984. The vegetables were no longer subjected to unified purchases and marketing by the state. The markets for them were wide open, diversified channels of purchases and marketing were permitted and the peasants were allowed to directly ship the vegetables to the city for sale. The result was that not only were there no undue fluctuations in their market prices but the peasants were also able to obtain an additional income of some 2 million yuan. The city's vegetable company managed for the first time in over 10 years to earn a profit instead of suffering a loss while residents in the city were able to enjoy fresh vegetables without any extra cost. It was also found that in the case of commodities subjected to floating prices, the extra income derived from price raising was about evened up by the loss of income through lowering the prices. The people's department store of the city enforced floating prices on some 370 kinds of garments following which the

prices of 176 kinds floated upward while those of about 200 kinds floated downward. During the period January to September 1984, when the additional receipts from the upward floating prices were set against the reduction in receipts due to the downward floating prices, a net increase of less than 1,000 yuan was recorded. During the same period, the gross index of the retail sales commodity prices in the city showed a rise of only 1.6 percent over the same period of the preceding year, lower than the average level for the whole country. Following the relaxation and liberation of the prices, no panic purchasing ever occurred. The extensive masses of consumers were generally satisfied.

/5. Tertiary industry enjoyed a thriving development./ The economic reform calling for enlivening the economy internally and opening to the outside and a rise in the consumption level of the people have helped to promote the momentum of development of Shijiazhuang's tertiary industry to an unprecedented level. Not only have the commercial departments tried hard to expand their operations but the industrial enterprises owned by the whole people or by the collectives and individual enterprise units have also invested a portion of their manpower and funds in the commercial service trades. The number of individual households engaged in tertiary industry has rapidly increased. What is particularly pleasing is the appearance of the new situation of peasants going to the city to engage in tertiary industry. They not only buy and sell on a small scale and take minor jobs but also engage in big businesses. According to incomplete statistics, in the city the peasants have set up 32 hotels, accounting for one-third of the total number of hotel beds in the whole city. They have also established 3 cinema houses and 105 restaurants, in addition to a number of photo studios, book stores, skating rinks, swimming pools and children's play grounds.

/6. Changes in the functions of government organs./ The reform in Shijiazhuang did not begin with the abolition, merging, or changing of the government organs, but with arousing the positivism of the various functional departments and fully displaying the functions and role of this "intermediate layer" of economic control departments at various levels in supporting and helping the enterprises in their reform. Whether or not the cadres had supported and performed well the work of reform was taken as an important criterion for assessing and evaluating their performance. By so doing, it was possible not only to avoid unnecessary mental worries and disruption of work but also to effectively solve the frequently encountered problem of the "intermediate impediment" in a city's economic reform. The "strike and reflex" process with enlivening the enterprises as its central task has served the purpose of "pushing from above and urging from below" vis-a-vis economic control departments located in the middle range, forcing them to earnestly consider the reform of their own organs and altering the tracks of their functions. Simultaneously, from the subjective demands made in enlivening the enterprises, we can more clearly see wherein lie the ills in the establishment of the government organs and the system of control. This renders it all the more necessary to consciously and purposefully carry out the reform. Thus, at the opportune moment, the reform of the government organs will be smooth-going and successful. At present, the various departments of the Shijiazhuang City

government have begun to shift their unilateral function consisting of administration and control to the bilateral function consisting of administrative control and rendering of services. In addition, they have made corresponding improvements in their workstyle and in work efficiency. For example, formerly the city planning commission's major lines of work were designating targets, examining and approving projects, distributing materials and apportioning investments. At present, the great proportion of its power has been delegated to the enterprises, and it has become necessary, and possible, for it to shift its main energy to studying and compiling regulations and policies, collecting and disseminating economic news and information, and performing well the jobs of coordination, supervision and rendering services. In 1984, the city planning commission and the research office of the city party committee jointly organized large-scale discussions on the strategies for Shijiazhuang's economic, scientific, technical and social development and compiled a technical transformation plan of the whole city for the seventh 5-year plan period. Regarding the suburb district and the rural villages in the suburb counties an exhaustive overall agricultural survey was made. This has provided first-hand information and materials on hydrology, soil, climate and natural resources, laying a foundation for compiling the agricultural development plan. Countering the new conditions and new problems emerging in the course of the reform, scores of control and management plans were successively compiled to speed up the development of the collective economy and thus to better display the functions of the economic comprehensive departments. As for the control and management departments (including the administrative companies) which are redundant and are no longer necessary, the city CPC committee and the city government are taking steps to readjust, abolish, or merge them according to plan and step by step so as to further push the reform of the whole city's economic structure to progress in depth.

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RURAL BANK SAVINGS UP

HK310515 Beijing CHINA DAILY in English 31 May 85 p 3

[By staff reporter]

[Text] With their average per capita income increasing from 310 to 355 yuan last year, China's farmers now have a total of 53.5 billion yuan (\$19 billion) in bank savings, a recent report of the State Statistic Agency revealed.

This indicates a 38-percent increase over last year, when the per capita bank savings of the country's nearly 800 million rural residents was 46 yuan. This year it has risen to 63 yuan.

A breakdown analysis shows Shanghai's 4.5 million farmers have the highest per capita each deposit of 260 yuan. Beijing's 3.8 million rural residents rank second with an average personal savings of 191 yuan. The 9 million farmers in remote Xinjiang Autonomous Region has an average of 126 yuan in their bank accounts, just below the per capita 145 yuan of the rural residents in North China's Tianjin City which ranks number three.

In South China's Guangdong Province, which boasts the highest living standards in the country, the 49 million farmers keep a per capita 124 yuan in their banks--next to Xinjiang but leading all other provinces.

Nearly all major cities and provinces in China showed an increase in their rural bank savings last year, ranging from 22 percent in Qinghai Province, where the per capita rural deposit is the same as the national average of 63 yuan to 54 percent in Hubei Province, where the per capita bank savings of its 40 million farmers increased from 32 yuan a year ago to the current 50 yuan.

Beijing City and the Tibet Autonomous Region are the only two places showing a slight decrease in their rural bank savings last year. Beijing's total rural savings is 741 million yuan this year--down 1.17 percent from a year ago, while the 1.6 million Tibetan farmers' per capita bank savings decreased from 16.7 yuan to 13.88 yuan this year, which is the lowest in China.

Meanwhile, in Sichuan Province, where the 87 million rural residents share a total bank deposit of 2.8 billion yuan currently--the fifth lowest in China--efforts are being made from county to county to encourage farmers, especially the poor to become prosperous through further reforming their economic setup.

Xinjing County in central Sichuan has sent its 1,000 officials in groups to the countryside to work with the rural residents on improving their household and collective economy, according to a four point programme.

The programme includes plans to boost productivity of rural industry through improved management, encouraging more rural workforce to switch to industry and service trades, turning more grain into processed food or animal feed to diversify farming and updating agricultural production with scientific skills.

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FINANCE AND BANKING

CHANGES IN DIVISION OF STATE, LOCAL REVENUE

Beijing CAIZHENG [FINANCE] in Chinese No 4, 8 Apr 85 pp 23-25

[Article by Xu Yonghua [6079 3057 0553]: "The Division of 1985 State and Local Budgetary Revenue"]

[Text] The division of state and local budgetary revenue is an important part of the state financial control system. The correct management of the division of revenue is both the primary means for ensuring the smooth implementation of the financial control system and the primary responsibility of financial departments at all levels and the national treasury. In keeping with the implementation of the second step of reform in the substitution of tax for profit, changes in the division of 1985 budgetary revenue are quite substantial. In order to facilitate implementation, the major changes will be briefly introduced below:

A. Initiating collection of an urban maintenance and construction tax. In order to expand and stabilize the source of urban maintenance and construction capital, the State Council resolved to levy an urban maintenance and construction tax starting in 1985. It is stipulated that this tax is to be applied to maintaining and constructing urban public utilities and facilities. Thus, instead of using the portion paid into the treasury by particular departments of the central government as state budgetary revenue, most of the urban maintenance and construction tax paid to the local treasury is considered local fixed revenue. The state receives no share of the remittances paid in by prefectures.

B. Eliminating tobacco monopoly revenue. Based on the stipulations of the "Proposed Regulations for the Second Step of Reform in the Substitution of Taxes for Profits in State-Run Enterprises," revenue from the tobacco monopoly was eliminated on 1 October 1984. This included: eliminating state revenue originally derived from revenue from cigarette price increases and replacing it with payment of a product tax. The amount left over after taxes is transformed into enterprise profits. The tobacco price-increase subsidies that were formerly returned to the treasury as state revenue and the portion of namebrand tobacco subsidies that affected enterprise profits are no longer reimbursed.

C. Dividing revenue from the product tax, the increment tax and the business tax according to a fixed proportion or according to subordinate relations among

enterprises. After substituting taxes for profits, the former industrial and commercial tax was divided into a product tax, an increment tax and a business tax based on what was being taxed. Consequently, when estimating revenue, the consolidated industrial and commercial tax derived from the original industrial and commercial tax provides the basis. The former industrial and commercial tax was generally regarded as local revenue and the gross amount was divided up. In order to appropriately increase the state's financial power and give consideration to local initiative, in 1985 some of the product tax, the increment tax and the business tax are divided as budgetary revenue according to a fixed proportion or according to subordinate relations among enterprises: (1) The product tax, the increment tax and the business tax paid by enterprise units under the Ministry of Petroleum, the Ministry of Electric Power, the Petrochemical Main Office and the Nonferrous Metals Main Office are, except for certain prefectures, divided up 3:7. This means that 70 percent is considered state budgetary revenue and 30 percent is considered local gross shared revenue. The "three taxes" paid by units outside of the four offices are still included under appropriate taxation items rather than being divided 3:7. (2) The business tax paid by the bank system is now divided as budgetary revenue according to subordinate relations among enterprises. The business tax paid by the main offices of the People's Bank of China, the Industrial and Commercial Bank, the Agricultural Bank, the Bank of China, and the Construction Bank is still considered state budgetary revenue. The business tax paid in by various bank branches and subbranches is considered local budgetary revenue. Remittances from prefectures are calculated in the shared gross amount. (3) The product tax, the increment tax and the business tax paid by other units (or individuals) are considered part of the local gross shared revenue.

D. Simplifying filing and payment procedure in accounting and revenue division. (1) Revenue collected from irrigation and sewage charges and from urban water charges comes under local special fund revenue. Last year it was considered local gross shared revenue. During final accounting the accounts were settled and returned separately. Starting in 1985, it is considered fixed local revenue so as to simplify yearend accounting procedures. (2) The profit-sharing system in county-run enterprises was eliminated. Local vested interests adopted the method of readjusting the base figure for financial revenue as a uniform solution. Consequently, beginning in 1985 all profits in county-run enterprises are considered local gross shared revenue. (3) The method of "2:8" sharing of state enterprise revenue was eliminated. Starting in 1985 all of it became state budgetary revenue. (4) The division of the resource tax. The resource tax is a new form of taxation first levied on 1 October 1984. At that time it was tentatively divided according to subordinate relations among enterprises that paid a resource tax. All the resource tax paid by most state enterprises is considered state budgetary revenue; 80 percent of the resource tax paid by state enterprises that have implemented the "2:8" division method is considered state budgetary revenue and 20 percent is considered local gross shared revenue; all of the resource tax paid by local enterprises is considered local gross shared revenue. Starting in 1985, all resource taxes are considered local gross shared revenue and are no longer divided according to subordinate relations among enterprises.

E. Other changes. (1) In 1984, it was established that the building tax be considered state budgetary revenue. It was found that the source of this tax was primarily local, so in 1985 a change was made to consider it local gross shared revenue. (2) The product tax to be collected through customs and the increment tax, according to regulations of the financial control system, are all part of state budgetary revenue. Later, after taxes were collected on clocks, watches, and 17 other commodities, the state again reaffirmed the principle of budgetary division. In 1985, instead of having separate regulations for certain coastal provinces (excluding clocks, watches, and 17 other commodities) other areas should consider these taxes state budgetary revenue. (3) Supply and marketing cooperatives above the county level formerly paid state enterprise income tax in keeping with state enterprise management. Starting in 1985, this changed to implementation of a collective enterprise financial system. Consequently, the tax was changed to an industrial and commercial income tax. Furthermore, the industrial and commercial surtax formerly collected from collective enterprises and individual industrial and commercial firms is still levied. The 1 percent industrial and commercial surtax preserved the original method of returning revenue. In 1985, after the urban maintenance and construction tax is levied, returning payments to the state will be halted.

The above-mentioned "local gross shared revenue" refers to provinces and centrally directed municipalities that have proportional payment obligations. In provinces, autonomous regions that receive state subsidies, and the two provinces of Guangdong and Fujian which have fixed remittances or subsidies, the above-mentioned gross shared revenue is all retained on the local level. The state receives no share.

For easy reference, we have made the table below on the actual division of 1985 state and local budgetary revenue according to the categories of state revenue items.

Table on the Division of State and Local Revenue

<u>Division of 1984 Revenue</u>		<u>Revenue Items</u>	<u>Division of 1985 Revenue</u>	
<u>Gross Shared Revenue (%)</u>	<u>State Rev- enue (%)</u>		<u>State Rev- enue (%)</u>	<u>Gross Shared Revenue (%)</u>
I. Taxes Collected				
100	0	△ Industrial and commercial tax	0	0
		Product tax, increment tax, business tax		
100	0	Including: the three afore- mentioned taxes paid by most units (or individuals)	0	100
		△ the three aforementioned taxes paid by enterprises	70	30

		directly under the four departments of the state		
0	100	△ business tax paid by banks		
		main office	100	0
		branches and below	0	100
		insurance company business		
0	100	tax main office	100	0
100	0	branches and below	0	100
0	100	railway business tax	100	0
		Resource tax		
0	100	Including: △ most state-run enterprises	0	100
20	80	△ state-run enterprises with 2:8 division	0	100
100	0	local enterprises	0	100
0	100	Special adjustment tax	100	0
100	0	Salt tax	0	100
100	0	Industrial and commercial income tax	0	100
0	100	Product tax collected by customs, increment tax (formerly industrial and commercial tax)	100	0
0	0	△ Other industrial and commercial tax	0	100
0	0	△ Consolidated industrial and commercial tax	0	100
100	0	Income tax from Chinese-foreign joint capital enterprises (A)	0	100
0	100	Income tax from Chinese-foreign joint capital enterprises (B)	100	0
100	0	Foreign enterprise income tax (A)	0	100
0	100	Foreign enterprise income tax (B)	100	0
100	0	Individual income tax	0	100
100	0	State enterprise bonus tax	0	100
0	100	△ Building tax	0	100
0	0	△ Urban maintenance and construc- tion tax (portion paid by state)	100	0
0	100	Cooking oil special tax	100	0
100	0	Cooking oil special tax refund	0	100
0	100	Customs duty	100	0
100	0	Agriculture and animal husbandry tax	0	100
100	0	Contract tax	0	100
100	0	Tax negligence penalty, overdue tax penalty	0	100

## II. Enterprise Revenue

### State-run enterprise revenue

		Including: most state enterprises		
0	100		100	0

20	80	Δstate enterprises with 2.8 division	100	0
100	0	local enterprises	0	100
0	100	ΔTobacco monopoly profits	0	0
0	100	Increased costs of excessive purchases of grain, cotton, oil	100	0
100	0	State approved price differential subsidies for grain, oil, cotton, coal	0	100
III. State-Run Enterprise Income Tax				
State-run enterprise income tax				
0	100	Including: most state-run enterprises	100	0
20	80	Δstate-run enterprises with 2.8 division	100	0
100	0	local enterprises	0	100
100	0	ΔIncome tax from supply and marketing cooperatives above county level	0	0
IV. Revenue From State Energy Communication, Key Construction Funds				
0	100		100	0
V. Special Fund Revenue				
0	100	Crude oil special fund export profits	100	0
100	0	ΔRevenue from irrigation and sewage charges	0	0
100	0	ΔRevenue from urban water resource fees	0	0
VI. Other Revenue				
50	50	Revenue from customs confiscation	50	50
100		Other revenue		100

- Note: 1. The "Δ" refers to new revenue items or items in which there has been a change in revenue division.
2. In order to save space there is no column for "local fixed revenue." In 1984 the only item under local fixed revenue was "other industrial and commercial taxes." In 1985 there are three items: "urban maintenance and construction tax" (excluding the portion paid in to the treasury), (revenue from irrigation and sewage fees," and "revenue from urban water resources fees." The "other industrial and commercial taxes" formerly under local fixed revenue is under local gross shared revenue in 1985.
3. The division of liability revenue is omitted. See 1985 state budgetary revenue and expenditure items.

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FINANCE AND BANKING

JPRS-CEA-85-054  
18 June 1985

BRIEFS

GUANGDONG BONUS TAX COLLECTION--It was learned from the provincial tax bureau yesterday morning that by the end of April, state-run enterprises in the province delivered 540,000 yuan in bonus taxes to the state for 1984. Of that figure, 210,000 yuan was from Hainan Li-Miao Autonomous Prefecture, and 189,000 yuan was from Sanya City, which accounted for 95 percent of the total amount. [Summary] [Guangzhou Guangdong Provincial Service in Mandarin 1000 GMT 10 May 85 HK]

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## BRIEFS

SHANDONG SILVER MINE--The Zhaoyuan County Silver Mine went into production on 1 May in Shandong Province. The proven reserves of this mine are 20,000 tons; the daily ore treating capacity is 100 tons; and the silver recovery rate is 91 percent or more. [Text] [Jinan Shandong Provincial Service in Mandarin 2300 GMT 9 May 85 SK]

HEBEI MINING ACTIVITY--Shijiazhuang, 3 Jun (XINHUA)--Peasants in Hebei Province have built more than 2,000 small gold, iron and magnesium mines, an official of the metallurgical office said here today. Most of the mines were built over the past 3 years, he added. Run by villages, collectives or individuals, the mines are on small deposits scattered across mountains, and about 50,000 peasants are engaged in such small-scale mining. Last year, these mines produced for sale to the state 5,420,000 tons of iron ore, accounting for 46 percent of the total dug out of the province--China's biggest producer. In addition, the peasants also built 28 dressing plants, which are turning out 900,000 tons of concentrated iron powder from 3 million tons of ore a year. There is abundant surplus labor in the densely-populated countryside of Hebei Province. Peasants dig ores under a unified plan and the local government has allocated 10 million yuan this year to support new undertakings. [Text] [Beijing XINHUA in English 0720 GMT 3 Jun 85]

CSO: 4020/236

INDUSTRY

JIANGXI RURAL, INDUSTRIAL DEVELOPMENT DISCUSSED

Beijing LIAOWANG [OUTLOOK] in Chinese No 9, 4 Mar 85 pp 10-11

[Article by Zhao Zengyi [6392 1073 4135], governor of Jiangxi Province: "Developing Diversification and Vigorous Promotion of Village and Township Industries"]

[Text] The necessary precondition for fully exploiting the agricultural superiorities of Jiangxi Province is the rational readjustment of the structure of rural production. Currently, there are two crucial points in this respect: the development of diversification and the development of rural and township industries; thus we must solve this problem of our having "two short legs." This is a matter of strategic significance for the continued vigorous development of Jiangxi's economy.

I. The "Two Short Legs" Are Impediments to Overall Developments

Jiangxi is a province with abundant natural resources, but it has an average per capita income of only 42 yuan, which places it 23rd in the entire country, making it a poor province. Although great economic progress has been made in the last few years in Jiangxi Province, its growth rate is still lagging behind the average growth rate of the whole country. The main reason is the lack of rural diversification and the inadequate overall distribution of rural and township industries, as well as the irrational structure of rural industries. In 1983, diversified economy accounted for only 52 percent of the gross agricultural output value, and the output value of rural and township industries accounted for only 8 percent of the gross agricultural output value. Over 80 percent of the rural labor force is concentrated on the arable land which makes up 14 percent of the total land surface of the province. On the arable land now available throughout the province only 11 percent is sown to cash crops. A processing industry for agricultural products has not even been started in earnest. In 1983, the output value of that part of the processing industry that uses agricultural products as raw materials, within the entire provincial rural and township industry, accounted for only 24 percent of the output value of the light industry. All these facts illustrate that there are on the one hand abundant natural resources and great potential, but that on the other hand single-product production prevails and that the economy is backward. Only by energetic development of diversified economy and of village and township industries can the superiority of our abundant natural



resources be turned into a superior commodity production, and can this "resource-great" province be turned into an "economy-great" province.

At this juncture we find that all favorable conditions for readjustment of the structure of rural production are indeed present. On the other hand, the reforms of the rural economic system have resulted in a steep increase in labor productivity and the availability of surplus labor. Currently, about one-third of the labor force in the rural areas has generally become surplus, and in some areas with more surplus labor up to about half. Calculated at the rate of one-third, the entire province would have a surplus labor force of 3,370,000, which is a large resource in itself. On the other hand, increasing income of the peasants has resulted in surplus capital of a very considerable amount. Our surplus labor force and surplus capital are now being diverted toward diversified economic undertakings and village and township industries. In areas that are in the forefront of this trend, a fervent movement is under way to exploit whatever the mountains and rivers can offer and to pursue aquatic breeding and the development of processing industries. If we will only adroitly guide action according to circumstances and render energetic support, the prospects in this respect are excellent.

## II. Emphasis on Developing Animal Husbandry

Diversified economy must first of all be "diverse." This requires that we shift our attention from the 1 mu per person of arable land to a goal of 6 mu per person of mountain land and hills, and to the more than 20 million mu of water surface, and implement a policy of taking simultaneous action regarding mountains, waters, forests and fields. We must develop agriculture, animal husbandry, fishery and sideline production all at the same time. Exploiting the resources of the mountain areas, giving serious attention to the many phases of bamboo processing and the multiple uses of bamboo, and energetic development of forestry and its sideline production are areas where Jiangxi Province has great advantages. There are also good prospects for aquatic breeding; apart from fish breeding, a large quantity and variety of water plants and animals can be raised. On the arable land that is now available, there must be a rationally proportioned distribution of grain and cash crops.

In this respect much work remains to be done, but starting out from immediate realities, our emphasis in the development of a diversified economy must be on animal husbandry, because Jiangxi has an abundance of grain and an even greater abundance of wide open spaces--grassy hills, grassy slopes and grassy islets. In developing animal husbandry, we must foster the idea that we are engaged in a commodity economy. In the past, cattle were raised only as draught animals and strictly for one's own requirements, which explains the slow progress in animal husbandry. We are now going to change this idea; the development of cattle raising will be mainly to create supplies of a certain commodity. We are going to raise cattle as draught animals, for milk, for meat and also for both draught animals and milking cattle; in short, to raise whatever appears suitable. We shall go in for raising all eight kinds of livestock: pigs, chicken, ducks, fish, cattle, sheep, geese and rabbits. For the present, however, we shall still mainly raise pigs, because there is here a question of on-the-spot utilization of grain. In the long-term view, our emphasis should be on raising cattle and sheep, as the only means of fully

utilizing our abundant grassy hills, grassy slopes and many grassy islets. Effective measures must, therefore, be taken to develop households specializing in animal husbandry, which can then guide and render support to our peasants in the large-scale raising of cattle, sheep and other livestock.

We must energetically promote grass growing and treat this as an important item of our agricultural endeavors. Wherever we are to have forests, there must be grass; without grass we cannot grow forests. Grass growing is necessary for the development of forestry as well as for animal husbandry. From the point of view of water and soil conservation, the quickest way to achieve results in these undertakings is to grow grass. If grass growing, raising livestock, and the simultaneous growing of forests and grass are carried out and agriculture is integrated with forestry and animal husbandry, it will not only mean an early exploitation of the productive potential of grassy hills and slopes, but will also be an all-round impetus for agriculture, forestry, animal husbandry, fishery and industry. We must, therefore, emulate the contract system in agriculture and forestry, and energetically encourage peasants to contract for grassy hills and grassy slopes, and encourage joint households to undertake grass growing and raising of cattle and sheep. These undertakings require little capital and will show early results. If we only adopt the correct policy, the peasants will be strongly attracted to such enterprises.

### III. Freedom for the Peasants To Operate Village and Township Industries

Without a diversified economy supported by village and township industries, it is impossible to develop a large-scale commodity economy. A village and township industry that is not based on large-scale agriculture will lack vitality. Weakness in diversification and inadequate village and township industries are our two "short legs." We must, therefore, effect their simultaneous development, otherwise we will still be limping along and be unable, in the same old way, to advance at a rapid pace.

In the development of village and township industries, we must give thorough consideration to the needs of the market, must suit measures to local conditions and undertake whatever appears suitable to be undertaken. As to the province as a whole, the emphasis must be on the production of consumer goods, and among these, preference must be given to the foodstuffs industry, including grain processing, animal and aquatic products processing, vegetable processing, fruit processing, oil crop processing, etc. The goal must be to build Jiangxi Province into one of the country's bases for the supply of processed foodstuffs. In areas where favorable conditions exist, such industries as fiber (cotton, hemp, silk) processing, building materials, small-scale energy industries, small-scale exploitation and smelting of nonferrous metals and processing industries that supply parts and components for large-scale industry, etc., may of course also be developed. However, the largest industry and the one to occupy dominant position still will have to be the foodstuff industry, where Jiangxi's great strength lies.

The development of village and township industries must take place under state auspices but giving the peasants a free hand in operating their industries. In the development of new industries, we must change from the method of

"government-run" to a method of people-run enterprises, from top-downward to down-upward operation. We must pay particular attention to the development of the processing industries by specialized households and must support joint households in the operation of industries. The villages and townships must strictly carry out the separation of government administration from enterprise management; the enterprises must relinquish their bonds to the village government, and powers and benefits must be returned to the people. We must carry out the "one contract, three reforms" system, allow the enterprises to manage their own business affairs independently with the right to self-determination. Cadres are to be hired by the enterprises on their own responsibility, and the village government must not wilfully interfere. The principle in economic distribution must be "upward, satisfy the tax demands of the state, turn in sufficient fees for the village government; but all the remainder is to be freely distributed by the enterprises." Only by carrying out these policies can there be a flourishing of village and township industries.

For instance, in Shanghu Village, Gaoan County, over 20 village-run enterprises last year carried out a system of inviting tenders and concluding contracts, whereupon the output value and profits rose about 40 percent above the original plan. Dongfanghong Village of this county transferred an enterprise originally operated by the village to operation by a peasant collective, converted the fixed assets to share investments, and thus attracted new peasant investments amounting to over 130,000 yuan.

#### IV. A Common Undertaking

The readjustment of the structure of rural production and the speeding up of agricultural diversification with the development of village and township industries is not only an affair of the agricultural departments, but is a common task for all economic departments. The departments in charge of economic affairs, administrative control departments, agricultural research departments and all other units concerned must shift the focus of their services from sowing and crop-raising matters to breeding and the processing and marketing of agricultural and sideline products. We must vigorously develop tertiary industries, gradually construct a socialized service system and render effective service in providing information and technology. We must also reform and strengthen circulation work, effectively proceed with the construction of highway and water transportation, give serious attention to the movement of intellectuals down into the villages to encourage the peasants to effect "intellectual investments." As to organizational measures, we must be firmly determined to dispatch cadres who are proficient in the pertinent undertaking, who are capable, diligent and have good business sense, so as to strengthen the leadership in these undertakings. If we will only infuse new technologies and adopt new managerial methods, according to the principles of socialist commodity economy, the agriculture of Jiangxi Province will definitely be capable of developing on a grand scale, and the economy of the entire province will undoubtedly undergo a transformation of historical significance.

9808

CSO: 4006/545

CONSTRUCTION

JPRS-CEA-85-054  
18 June 1985

#### HOUSING CONSTRUCTION BOOMING IN RURAL AREAS

OW030834 Beijing XINHUA in English 0824 GMT 3 Jun 85

[Text] Beijing, 3 Jun (XINHUA)--Each of China's 200 million rural households built an average of a 12-square-meter room in the past 5 years.

According to the Ministry of Urban and Rural Construction and Environmental Protection, altogether about 2.4 billion square meters of floor space were completed in the period, greatly improving the living conditions of the rural residents.

In addition, about 1.2 billion square meters of floor space of factory buildings, shops, warehouses, schools, kindergartens and homes for the aged were built.

The construction boom followed successive good harvests and a flourishing of township industries in rural areas.

More than 80 percent of the new housing is brick-and-tile structures and one-fourth are two or three stories high. However, when construction started in 1978, 57 percent of the rural housing was of sun-dried brick and thatch.

In some developed areas of Jiangsu, Zhejiang, Guangdong, Shandong and Liaoning Provinces, peasants use plastics and coating materials to decorate the floors and ceilings of their buildings. The designs and decorations are often more attractive than urban dwellings.

Piped water supply to rural housing increased from 5 to 10 percent in the period.

Since farmland is limited in China, an administrative system was set up in 1982 throughout the country to control the use of farmland and guide rural construction. By the end of 1984, 57 percent of the rural townships had made construction plans and 51 percent of all villages had theirs, a total of 290,000 planning technicians had been trained. It is expected that by the end of 1985, planning for all the towns and villages will be completed.

Houses have been built in stages by some villages in accordance with government plans and sold to the villagers. In other places, construction teams have built to the villagers' specifications.

CSO: 4020/236

CONSTRUCTION

BRIEFS

ANHUI CEMENT PLANT TRIALS--Hefei, 23 May (XINHUA)--One of China's largest cement plants--with an annual production capacity of 1,500,000 tons a year--began trial operation in southern Anhui Province today. Equipment for the Ningguo Plant was imported from Japan, and construction began 3 years ago. Ningguo and two other new plants--Jidong in Hebei Province and Xuzhou in Jiangsu Province--will begin production later this year, turning out a total of 4 million tons a year. China ranks second in the world in cement production. Last year it produced 123 million tons. [Text] [Beijing XINHUA in English 0721 GMT 23 May 85 OW]

CSO: 4020/236

DOMESTIC TRADE

JPRS-CEA-85-054  
18 June 1985

BRIEFS

NEI MONGGOL RETAIL SALES--In January-April period, the total volume of retail sales in Nei Monggol Region was 2,272,050,000 yuan, a 27.24-percent increase over the corresponding 1984 period. [Summary] [Hohhot Nei Monggol Regional Service in Mandarin 1100 GMT SK]

CSO: 4006/643

ON GROWING SIGNIFICANCE OF CHINA'S JOINT OVERSEAS VENTURES

Frankfurt/Main FRANKFURTER ZEITUNG/BLICK DURCH DIE WIRTSCHAFT in German  
6 May 85 p 2

[Text] The number of joint ventures in the People's Republic of China increased dramatically during the past year, 1984. With the founding of somewhat more than 500 new companies, this number was 2 1/2 times higher than in the five preceding years, 1979 to 1983, taken as a whole. While China because of its economic reforms is able to have relatively easy access with this kind of joint venture to foreign capital and foreign technology without having to pay for these in foreign currency, the People's Republic has also for some time now appeared as an investor of capital and technology in other countries. By the end of 1984, China had entered joint ventures with a series of foreign partners, in which it is represented with shares totalling \$150 million. According to Chinese sources, such undertakings have been realized in the U.S.A., Japan, the Netherlands, Belgium, the FRG, and several African and Asian countries, as well as in Brazil. The joint ventures between China and local partners are concerned primarily with the exploitation of natural resources, the manufacture of various industrial products, construction, finance and insurance, ship-building, consulting, and gastronomy.

Just as China is interested in the foreigners, so too the corresponding partner states are very interested in the joint ventures they have co-founded with China because they also recognize the advantages associated with these projects and because they are confronted with problems similar to those that China faces: shortage of capital and a lack of modern technology. For its part, China is by no means acting out of purely altruistic reasons in founding these joint ventures abroad. Its main concern is the exploitation of resources that are much needed by China as well as the establishing of smaller and medium-sized processing plants which have both a guaranteed supply of raw materials as well as a secure market for their products. China provides primarily technical equipment, technical expertise, specialists and administrative personnel. It receives its share of profits at special prices in the form of finished products or the raw materials which have been jointly exploited, above all products of the mining industry.

China's efforts in the direction of joint ventures abroad have been both very intensive and evidently quite successful. It sends out negotiation delegations and working teams for certain industrial sectors and types of businesses. Just one example is a group that went to over 20 countries to have a look at the deep sea fishing industry, in order to consult with the individual countries regarding the best means of acquiring all of the necessary equipment. Relevant treaties have been signed with Sri Lanka, Sierra Leone, Senegal, Guinea, and Mauritius, according to which China agrees to provide the larger part of the investment resources, including the ships. A fishing fleet of thirteen ships has already set out for these countries. If China itself does not have the necessary equipment, such as ships, motor vehicles, machines and other materials, then it purchases the equipment from western nations by means of its exports and hands it over to its joint venture partners.

China's International Trust and Investment Company (ITIC), the top organization for China's foreign joint ventures, had purchased a forest in the United States and was felling trees. Cargo ships arrived in China carrying 25,000 cubic meters of timber. A jointly-operated veneer factory in Brazil has manufactured 4,000 cubic meters of veneer since the fall of 1984. The ITIC is also negotiating with the Australian Hammersly Iron Company Pty. regarding the extraction of iron ore in Australia on a joint-venture basis.

Overseas joint-ventures are an increasingly important form of economic cooperation between China and other countries. In this process China is careful to select production areas and/or sources of raw materials that are able to fill existing gaps in its own national economy.

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CSO: 4620/33



FOREIGN TRADE AND INVESTMENT

JI CHONGWEI ON FOREIGN TRADE REFORM

Beijing LIAOWANG [OUTLOOK] in Chinese No 9, 4 Mar 85 p 27

[Article by Ji Chongwei [1323 1504 1218]: "New Expectations and Hope for Our Foreign Trade"]

[Text] Since the 3d Plenum of the 11th CPC Central Committee, many tentative reforms have been instituted in the structure of our foreign trade, in order to implement our policy of opening up China to the outside world and of invigorating the domestic economy. In September 1984, the State Council approved and passed on a report issued by the Ministry of Foreign Economic Relations and Trade expressing certain ideas on the reform of our foreign trade system and thus advocating systematic, penetrating and wide-ranging changes to be effected in our foreign trade system. The main points of these changes are the expansion of authority for localities, departments and certain enterprises in the conduct of foreign trade, a variety of forms to be adopted for the integration of industry with trade as well as technology with trade, and the application, to varying degrees, of special policies and flexible measures for special economic zones and for the provinces of Guangdong and Fujian. Although these reforms have spurred on our foreign trade to a certain extent, it was due to their focusing mainly on the distribution of authority in the conduct of foreign trade, as between the central and the local authorities or between departments, that these measures did not touch on the basic question of how to strengthen the vitality of our foreign trade enterprises and production enterprises, to make these enterprises the main entities in the conduct of our foreign trade activities. No thorough solution has, therefore, been achieved in some of the long-standing problems in our foreign trade system, such as the integration of government administrative functions with enterprise management functions, eating from one big pot, and disjointed production and marketing operations.

Through many years of practice and the summing up of experiences, we have gradually come to recognize the basic principles to be followed in our reform of the foreign trade system. These principles demand that we must separate government administrative functions from enterprise management functions, that the foreign trade business must gradually change from procurement and government monopoly marketing to a system of agency representations, that there must be integration of industry with trade and of technology with trade, as well as imports with exports. It is in these directions that our hopes lie for a new and vigorous development of China's foreign trade.

In the present new year, our reforms must mainly be concerned with increasing the vitality of our enterprises.

First, the focal point of the reform is the separation of government administrative functions from enterprise management functions, reduction of government administration, and delegation of authority. The core of this reform is a clear definition of functions of the administrative organs in charge of foreign trade and of the enterprises in managing and carrying out our foreign trade. This is an indispensable precondition for strengthening the vitality of foreign trade enterprises.

Second, the present reform has decided on a system of import and export agencies of the foreign trade enterprises on behalf of users and producer enterprises, who may then authorize foreign trade enterprises to be their import or export agents, but will still have to remain responsible themselves for their own profits and losses.

Third, after the separation of government administrative functions from enterprise management functions, the enterprises will have been freed from restraints by central and local authorities and from irrational interference from government administrative organs. This will create favorable conditions for cooperation and joint operations between trade enterprises, production enterprises and scientific research units. The agency system establishes close ties of economic benefits between industry and trade, rendering the linkages between them common necessities and conscious actions. The integration of industry with trade and of technology with trade is a necessity for the integration of production with circulation, for bringing the strengths of both industry and trade fully into play and for adapting to the needs of the international market; it is indeed an important path toward ensuring enterprise vitality. In addition, the present reform allows the foreign trade enterprises to engage in rational competition, on the principle of overall control by the state plan and by state laws and regulations and of maintaining a unified stand toward the outside world.

Invigorating our foreign trade enterprises will bring about a diversification in the organizational and business patterns of our import-export trade. Under these conditions, the question that will decide success or failure of the reform will be how to strengthen and perfect the state's control and regulatory functions regarding foreign trade. The present reform demands that the authority of the administrative control of foreign trade work and of any kind of foreign trade enterprises be concentrated in the Ministry of Foreign Economic Relations and Trade; all other departments or trade enterprises of whatever nature shall no longer be authorized to exercise administrative controls. This undoubtedly will strengthen the unified leadership of the state over foreign trade work, will help overcome the phenomenon of "government issuing from many different doors," and will ensure a uniform stand toward the outside world. In another respect, this will allow the state, mainly by relying on its various economic policies and on a variety of economic levers, to regulate and guide foreign trade enterprises, so that they will maintain the correct business orientation and enthusiastically complete the various tasks of the plan. The present reform has decided on various economic regulatory measures, the reduction of or exemption from

taxes, loans and other secondary measures, worked out by the Ministry of Foreign Economic Relations and Trade together with other relevant departments and promptly readjusted and published as demanded by the changes in the domestic and foreign markets and in the foreign exchange rates. This will benefit the state in starting out from a consideration of the overall situation and in organizing all departments to following coordinated uniform economic policies, as it will also help to resolve the contradiction wherein different sectors follow different--sometimes broader, sometimes stricter--policies.

Reforming the foreign trade system is a continuous process of exploring and probing and of continuous progress. The foreign trade departments and enterprises must break with old conventions, change old workstyles and on the basis of summing up previous experiences courageously create new things and learn new methods of management and business operations as demanded by the new situation. This is to be the overall direction, as it is also the direction of our expectations and hopes.

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CSO: 4006/545

JPRS-CEA-85-054  
18 June 1985

SHAANXI'S ACTIVITIES IN FOREIGN ECONOMIC COOPERATION NOTED

Xi'an SHAANXI RIBAO in Chinese 1 Dec 84 p 1

[Article by Zhou Fu [0719 4395] and Zhou Zhenqing [0719 2182 3237]: "Relationships For Economic And Technical Cooperation Established Between Shaanxi Province and 122 Countries and Regions"]

[Text] In the past year, Shaanxi Province's foreign economic and technical relationships have developed rather quickly. Shaanxi has established such relationships with 122 countries and regions on 5 continents.

With 30 years of development behind it, Shaanxi Province is beginning to turn into an industrial base with complete industrial categories. The province offers favorable factors for the development of foreign economic and technical cooperation. Up to now, more than 100 kinds of goods have been sold overseas. For example, Luotuo [Camel] brand enamelware which is reknowned at home and abroad is sold in more than 70 countries and regions on 5 continents. The performance of the oil well machinery designed and manufactured by the Baoji Petroleum Machinery Plant is up to advanced world standards and the machinery is sold as far away as the United States. While expanding exports of goods, Shaanxi has introduced many advanced techniques, equipment and raw materials from abroad, and promoted technological progress and economic development. Since importing proprietary manufacturing technology for aircraft engines from the British Rolls Royce Co, the Xi'an Aircraft Engine Works has won a reputation for itself and is receiving orders to process client materials from the United States, England, and Canada. By the end of September this year, the plant had signed contracts to provide \$5 million worth of goods with foreign businessmen. The Xi'an Color Picture Tube Plant introduced a complete set of advanced equipment imported from Japan. This year the plant's total output value will exceed 300 million yuan, which is expected to increase the state's accumulated capital by 110 million yuan. Additionally, since introducing advanced foreign technology, goods made by the Xi'an Electric Co, the China Precision Sewing Machine Co, the Shaanxi Air Blower Works, and the Haihong Bearing Plant meet or surpass advanced international standards. Their goods are now more competitive on the international market.

12615  
CSO: 4006/310

FOREIGN TRADE AND INVESTMENT

BRIEFS

BEIJING JOINT PHOTO COMPANY--Beijing, 1 Apr. (XINHUA)--The Chinese Great Wall Color Photo Company was inaugurated today in Beijing. The joint-venture company was jointly set up by TiYu Bao [sports news] and the U.S. Huaxi Company. Its main business is to develop color negatives and print color photographs. Rong Gaotang, advisor of the state physical culture of Huaxi Company, attended the opening ceremony this afternoon. [Summary] [Beijing XINHUA Domestic Service in Chinese 1 Apr 85 OW]

DENMARK DELEGATION VISITS SHANDONG--A 18-member Danish economic delegation headed by (Bidelin), director of Danish Commercial Association, visited Jinan, Shandong Province, on the morning of 5 May. Vice Governor Ma Shizhong met with the delegation that same evening. [Summary] [Jinan Shandong Provincial Service in Mandarin 2300 GMT 5 May 85 SK]

CSO: 4006/643

LABOR AND WAGES

BRIEFS

SKILLED WORKERS OVERSEAS JOBS--Beijing, 26 May (XINHUA)--China now has 51,000 skilled workers and engineers working abroad, according to the Ministry of Foreign Economic Relations and Trade here. More than half of them have been sent abroad on labor service contracts; others are working on projects being built by China abroad. They are working in more than 50 countries and regions, mostly developing nations in Asia and Africa. Construction, public utilities, medicine, cooking and light industry are the main fields of endeavor. China began to offer labor service abroad and contract for projects in foreign lands in 1976, and has since been involved in 67 countries. China now has 57 companies engaged in overseas labor service and contracting. According to the ministry, overseas ventures provide China with a chance to export equipment and raw materials. [Text] [Beijing XINHUA in English 0136 GMT 26 May 85]

EMPLOYMENT NOTED--Beijing, 28 May (XINHUA)--Over 45 million people, one-third of China's social labour force, found jobs between 1979 and 1984, today's CHINA YOUTH NEWS reports. The country is expected to employ 30 million people between 1986 and 1990, averaging 6 million a year. By the end of 1984, about 32.16 million people were working in collective enterprises in towns and cities, and there were 3.39 million self-employed urban workers. The paper anticipates continuous increases in the number of people working in service trades. Collective and individual businesses have already become the main providers of urban jobs, it adds. [Text] [Beijing XINHUA in English 1137 GMT 28 May 85]

CSO: 4020/236

TRANSPORTATION

HENAN PROVINCE INCREASING RAILWAY CAPACITY

OW030757 Beijing XINHUA in English 0708 GMT 3 Jun 85

[Text] Beijing, 3 Jun (XINHUA)--Central China's Henan Province has built 1,669 kilometers local narrow-gauge railways, according to local railway authorities today. The 15 local railways carried 6.65 million tons of freight and 3.95 million passengers last year, the authorities said.

The province has a total of 3,500 kilometers of railways, with a railway density more than three times the national average, in addition to railways run by the state. Fifty-six of the 110 counties are covered.

Railway construction is a national priority and the weakest link in the economy. The state has limited funds to build railways, so it encourages localities to pool funds to build their own railways.

Between 1959 and 1983, 64 percent of the total investment in local railways were raised by Henan province alone. The rest came from the state.

Local railways usually cost half or one-third less than those undertaken by the state. Transportation charges are 50 percent lower than road transport. Cost for fuel consumption by steam engines is 47 percent lower. Investment can be recovered in just 5 years.

The province has raised 10 million yuan to build and upgrade six other railways, including 113 kilometers of sub-standard railways and 184 kilometers of narrow-gauge lines. Their completion by the end of next year will increase the carrying capacity by 6 million tons.

Henan Province is one of China's major grain producers and coal mining areas that turned out 69 million tons of coal last year. It is the second biggest producer in China. The annual output is expected to top 80 million tons by the turn of the century.

The province plans to invest 410 million yuan during the Seventh 5-Year Plan period beginning in 1986 to build another 447-kilometers local railways and upgrade 176 kilometers of the present lines. This will enable it to send coal to east China and to serve the central China oilfield.

CSO: 4020/237

TRANSPORTATION

GONGREN RIBAO URGES FASTER HARBOR CONSTRUCTION

OW161331 Beijing XINHUA in English 1207 GMT 16 May 85

[Text] Beijing, 16 May (XINHUA)--An article in today's WORKERS' DAILY urges faster construction of harbors in China's 14 coastal cities opened to foreign investment.

Ninety percent of China's export commodities are shipped out through these ports, according to the information office of the ministry of communications, which contributed the article.

At present, the growth of exports outstrips the increase in the number of berths available at major ports. China will have 200 deepwater berths at the end of 1985.

During the Seventh 5-Year Plan Period (1986-1990), the country plans to build 120 deepwater berths and 36 medium-size and small ones. This will bring the number of berths in coastal ports up to 542 and annual handling capacity will rise from 310 million tons this year to 500 million tons.

Apart from investment from the state, the article advises that the open cities, shipping companies and interior provinces build special docks independently or jointly.

The article suggests that preferential treatment should be given to overseas business firms which want to invest in Chinese ports.

The 14 coastal cities, which were opened wider to foreign investors last year, are Dalian, Qinhuangdao, Tianjin, Yantai, Qingdao, Lianyungang, Nantong, Shanghai, Ningbo, Wenzhou, Fuzhou, Guangzhou, Zhanjiang and Beihai.

China plans to gradually open three river deltas, the Pearl, the Yangtze and the Yellow, as well as the Liaodong and Jiaodong peninsulas to foreign investors.

CSO: 4020/224



TRANSPORTATION

QINGHAI MAKES ADVANCES IN ROAD SURFACING

OW030807 Beijing XINHUA in English 0637 GMT 3 Jun 85

[Text] Xining, 3 Jun (XINHUA)--Road surfacing in frozen-soil areas will be improved thanks to a 10-year project by specialists, the Qinghai Provincial Communications Department announced.

Made from polystyrene, the material reflects sunshine to prevent heat from penetrating the frozen soil, said engineer Liu Jilin. It is similar to an asphalted road in terms of hardness and reliability.

But as asphalted road becomes soft in summer as a result of absorbing strong ultraviolet rays on the Qinghai-Tibet plateau.

A section of the 1,940-kilometer Qinghai-Tibet highway is being surfaced with the new material, Liu said, adding that 560 kilometers of the road run through frozen-soil areas.

The new material was developed by 200 scientists from the Ministry of Communications, the Chinese Academy of Sciences and institutes in Qinghai and Tibet.

They have also made successful experiments in reinforcing highway bridges and culverts by driving piles into foundations. Frozen soils become viscous in summer and freeze again in autumn, threatening building foundations.

There are 150 major bridges along the Qinghai-Tibet highway, many situated in frozen-soil areas 4,000 meters above sea level.

Frozen soils on the Qinghai-Tibet plateau cover 1.47 million square kilometers---about 60 percent of China's total.

CSO: 4020/237

XINJIANG TO DEVELOP TRANSPORT NETWORK TO TAP NATURAL RESOURCES

HK310517 Beijing CHINA DAILY in English 31 May 85 p 1

[By staff reporter Zhu Ling]

[Text] Xinjiang Uygur Autonomous Region, China's vast northwest frontier, is counting on development of a transport network and its massive untapped natural resources to spearhead its push for prosperity.

Officials there are hoping for an economic take-off in the final decade of the century that will catapult Xinjiang into a prominent position as an important industrial and investment centre in modern China.

The region is now focusing its efforts on the development of its civil aviation industry and railway construction, said Huang Baozhang, vice governor of Xinjiang.

Xinjiang is the nation's largest administrative zone, covering one-sixth of China. Though it has vast desert lands, it is believed to have the nation's untapped natural and mineral resources. But its backward transport system is hampering the Central Government's announced plan to "build Xinjiang into the most important base for China's economic development in the next century."

To improve air transport, Xinjiang established its own aviation company early this year.

The region's own fleet of aircraft will begin to take shape when a Soviet-made large passenger plane arrives in December. Xinjiang has contracted to buy three 160-passenger air planes from the USSR. The others will arrive before February and begin commuter flights to Beijing, Shanghai and Guangzhou.

Meanwhile, the region is negotiating with two foreign firms to buy three small passenger planes.

"We hope to seal a contract soon and the planes that can take 30 to 40 passengers will be used for Xinjiang's regional service," Huang said.

Currently, more than 20,000 workers and technicians are building a railway linking Urumqi, the region's capital, with northern Xinjiang, which borders with the Soviet Union.

There is no railway in all of northern Xinjiang, one-fourth of the region's territory. This area boasts China's first oilfield--the Karamy Field. Its annual output is expected to hit 4.9 million tons this year. The area also has two-thirds of Xinjiang's coal deposits--an estimated 1,600 billion tons--in reserve. But lack of transport has held back production of coal and other mineral resources in northern Xinjiang.

In the first stage, some 350 million yuan (about \$125 million) will be invested in a railway to link Urumqi to Usu. An eighth of the 240-kilometre distance will be completed this year.

"We aim to complete the first stage of construction by 1987 and then we will proceed further north to our border with the Soviet Union," said Huang. Another 300 million yuan (about \$107 million) will be invested to build 230 kilometers to hook up with the Soviet railway system.

The new railway, which is essential to Xinjiang's economy, will connect northern Xinjiang with the rest of the country and play a significant role in bilateral trade between the region and Eastern European countries and the Soviet Union.

Huang, 48, said that the autonomous region is striving to make a breakthrough in oil exploitation within two years. The region has verified oil deposits of 1.5 billion tons. Its oil production target is 20 million tons annually by the turn of the century.

Geographical and mineralogical surveys are going on in the Tarim and Zhuage'er basins jointly by Chinese and foreign prospectors from Japan, the United States and France. "Hopefully, in two years we can verify a new oil deposit equivalent to that of Daqing, the country's leading oil producer," said Huang.

Xinjiang's exploitable hydroelectric potential is estimated at 9.04 million kilowatts but the present utilization is only 1.7 percent. Several hydroelectric plants are under construction to help ease the energy shortage in major industrial towns.

In order to acquaint overseas businessmen with Xinjiang, the region will hold an export commodity fair in Hong Kong on 15 August.

And on 20 August, Xinjiang will hold its first international economic symposium in Urumqi to seek foreign technology and investment.

In order to meet its goal of a fourfold increase in gross industrial and agricultural output value annually by 1999, an investment of some 50 billion to 60 billion yuan is needed, Huang said.

Xinjiang already has attracted more than \$100 million in foreign funds to import technology and equipment, he said. Officials have mapped out 83 projects in many business sectors that could use foreign investment.

TRANSPORTATION

BRIEFS

SHAANXI CARGO PLANE PRODUCTION--Xian, 24 May (XINHUA)--The Chinese-designed "Yun-8" cargo plane has gone into general production at the Xian transporter plant in Shaanxi Province, a company official said today. Designed in 1980, the plane can carry 20 tons of cargo, and can drop goods by parachute and carry out aerial geological surveys. It has four turboprop engines, a top speed of 660 kilometers an hour and a range of 5,600 kilometers. It is designed to fly at an altitude of 10,000 meters. The plane has passed rigorous trials and safety tests, including taking off with three engines. [Text] [Beijing XINHUA in English 0728 GMT 24 May 85]

SHANGHAI EXPRESSWAY CONSTRUCTION--Shanghai, 23 May (XINHUA)--Construction began today on the second expressway in Shanghai, the municipal transport bureau said. The road, 20.6-kilometers long and 28.5 meters wide, will link Shanghai and Songjiang counties under the city's jurisdiction. The 200 million yuan project is scheduled to be completed in 1987, allowing motor vehicles to run at a speed of 120 kilometers per hour. Construction on the first, from the city center to Jiading County began last December. Three more expressway have been planned, two to Jiangsu Province and one to Zhejiang. [Text] [Beijing XINHUA in English 1431 GMT 23 May 85 OW]

ANHUI-JIANGXI RAIL LINK--Hefei, 1 Jun (XINHUA)--A 541-kilometer Anhui-Jiangxi railway was officially opened today, said a railway official here. A key construction project, it runs from the Yangtze River port of Wuhu in Anhui Province to Guixi in Jiangxi, a major copper producing center. The railway links the Nanjing-Wuhu line to the north and the Zhejiang-Jiangxi and Yingtian-Xiamen lines to the south, passing the scenic Huangshan Mountains and the porcelain center of Jingdezhen. It will alleviate transport congestion in east China, the country's economically most developed region, and cuts 300 kilometers from the Yingtian-Nanjing route by avoiding Shanghai. The line has been in trial use for a year. [Text] [Beijing XINHUA in English 1305 GMT 1 Jun 85]

CSO: 4020/237

SHIJIE JINGJI: ECONOMIC REFORM IN USSR, EAST EUROPEAN COUNTRIES

HK200633 Beijing SHIJIE JINGJI in Chinese No-2, 10 Feb-85 pp 64-65

[Article by Zhou Xincheng [0719 2450 1004]: "Differences on Economic Reform Theory Between the Soviet Union and East European Countries"--excerpted by Min Pu [3046 0091] from: "The Theories and Patterns of the Reform of the Economic Structure in the Soviet Union and the East European Countries" published in WAIGUO JINGJI YU GUANGLI [ECONOMY AND MANAGEMENT IN FOREIGN COUNTRIES] No 11, 1984]

[Text] Regarding the most fundamental theories on economic reform, the Soviet Union and the East European countries have the following three major differences:

1. The economic functions of the state. One of the fundamental differences in the economic reform between the Soviet Union and the East European countries is whether or not the state should manage the economy. Since the conclusion of the socialist transformation of the ownership of the means of production and the announcement of the elimination of the exploiting classes, the Soviet Union has regarded the organization of production and culture and education the basic and most important function of the state. On this point, Hungary and other East European countries (with the exception of Yugoslavia) share the same view with the Soviet Union. Therefore, their economic reform is not aimed at abandoning or negating state management of the economy but at improving the methods of such management.

On the other hand, Yugoslavia has proceeded in its economic reform by negating the state's economic function. Yugoslavia has proposed that "revolution should not only be the replacement of one kind of state apparatus with another but also be the beginning of the process of the withering away of the state's function as a general tool of state power." In addition, the process of the withering away of the state should begin with its economic function.

2. The forms of ownership of the means of production. Although both the Soviet Union and the East European countries recognize public ownership of the means of production, their views toward the forms of ownership are very different.

Yugoslavia has abandoned state ownership. It holds that state ownership is the lower form of public ownership and advocates ownership by society, that is,

socialist autonomous ownership, regarding this as the higher form of public ownership. The means of production under the ownership by society do not belong to the state, nor do they belong to any collective or group. Much less do they belong to any individual. They belong to the whole of society.

On the other hand, the Soviet Union holds: First, state ownership is ownership by the whole people and it is the highest form of public ownership of the means of production; second, collective ownership which took shape in the process of socialist transformation of the small-scale peasant economy is the lower form of public ownership, which should move on to ownership by the whole people; third, members of farms, workers, and staff members are permitted to run sideline production; fourth, the existence of capitalist ownership is not allowed and individual ownership is not encouraged. The general theory is, the bigger and the more public, the better.

Hungary advocates that state-run economy is the main component of the national economy. This is different from Yugoslavia but close to the Soviet Union. However, Hungary holds that: first, the two kinds of ownership, state ownership and cooperative ownership, are not divided into ownership of the higher form and the lower form. Consequently, it does not favor the transformation of cooperatives to state farms; second, it encourages and develops the economy of plots for private uses, the auxiliary economy and the individual economy, and advocates the coexistence of various economic components with socialist public ownership as the dominant factor; third, it allows various economic components to compete in the market so that each can develop in the sectors most suitable for it (viewed from the angle of the needs of the development of the productive forces). Consequently, a natural and rational division of work among various forms of ownership exists.

Although both Hungary and the Soviet Union stress the necessity of state ownership, they hold completely different views on the ways of possession, use, and manipulation of the means of production under state ownership. This is expressed in their views toward the position of state-run enterprises. The Soviet Union holds that enterprises are grassroots units which implement state plans, whereas Hungary holds that state-run enterprises should be independent commodity producers. The Soviet Union holds that the state is both the owner of the means of production and the user of the means of production. But Hungary holds that the functions of owners should be separated from those of operators and managers. These theoretical differences have led to very great differences between the management systems under state ownership of the two countries.

3. The commodity and monetary theory under socialist conditions. The economists of the Soviet Union and various East European countries basically hold the same view, that the commodity and monetary relations are intrinsic economic relations of socialism and that the means of production are commodities, and have negated the idea of limiting the role of the law of value. However, there are great differences in official views on commodity and monetary relations.

While recognizing the commodity and monetary relations in socialist society, the Soviet Union stresses the specific characteristics of these relations.

It only recognizes the commodity and monetary relations which do not involve competition, price fluctuations, and spontaneous market connection. On the other hand, Yugoslavia stresses "direct market commodity exchange," and "the only pattern acceptable to the socialist economy is the pattern of free competition." The view of Hungary toward commodity and monetary relations lies between those of the Soviet Union and Yugoslavia. On the one hand, it points out that the socialist commodity and monetary relations are planned commodity and monetary relations. On the other hand, it stresses that enterprises should become independent commodity producers, the prices of supply and the prices of demand should directly affect one another, and buyers and sellers should establish genuine commodity and monetary relations in order to provide the market mechanism with ample commodities for its activities.

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## IMPACT OF EXTERNAL DEBT ON EAST EUROPEAN COUNTRIES ANALYZED

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[Article by Feng Cuncheng [7458 1317 6134]: "The Impact of External Debt on East European Countries"]

[Text] I. The Origins of East Europe's Debt

In 1970 the foreign debt owed to the advanced Western countries by the seven East European countries of Poland, The GDR, Czechoslovakia, Hungary, Romania, Yugoslavia and Bulgaria had increased to at least \$1 billion. Within the next 10 years foreign debt multiplied so that in 1981 the foreign debt of these seven East European countries amounted to: Poland, \$25.5 billion (in 1984 reaching almost \$30 billion); Yugoslavia, \$18.7 billion; GDR, \$14.9 billion; Romania, \$10.2 billion; Hungary, \$4.5 billion; Czechoslovakia, \$4.4 billion, and Bulgaria, almost \$3.1 billion (cf. Table 1).

A large foreign debt has a detrimental effect on the economic development of the borrowing countries. For example, forcing the borrowing country to squeeze out foreign exchange to pay off debts by cutting imports or increasing exports which in turn aggravates inflation in these countries. Within a few years this produces slower or stagnant growth in production, and the peoples' standard of living falls. In recent years the serious economic difficulties in Poland and Yugoslavia cannot be separated from their excessive debt payments and the impediments to the normal functioning of the economic mechanisms. However, when foreign debt helped to overcome East Europe's technological backwardness, natural resource scarcity, and illiquidity, it had a positive role to play in guaranteeing future economic and technological development. When compared to this, the problems of debt payments are temporary.

East Europe's swelling debt service is composed as follows:

1. The main reason for most East European state borrowing is to carry out large-scale modernized construction for urgently needed advanced technology and equipment. Most East European countries are quite short on resources and labor is tight, so economic development has to rely upon intensification, speeding up the regeneration of equipment, and having capital- and knowledge-intensive industries. But the East European countries all have rather low



economic and technological levels and the strength of these capital-poor countries is insufficient. Poland, Romania, Hungary, Yugoslavia and the GDR solved this major shortcoming to a certain extent by introducing large quantities of advanced technology and equipment via loans from the West. Czechoslovakia and Bulgaria did not consider this avenue seriously enough. From 1971 to 1978 Poland paid a total of 473 billion zlotys to the West entirely in Western credits to introduce machinery and equipment equivalent to 53.6 percent of the total investment in machinery and equipment for the industrial sector in this period. From 1971 to 1980 Hungary used Western credits to import machinery which comprised over 21 percent of the country's total investment in machinery industries. At the end of the 1970's foreign funds comprised more than 33 percent of the total investment in Yugoslavia's nonferrous metal smelting, metal extraction, oil recovery, iron and coal mining and chemical industry sectors. By 1977 Romania had already accepted \$3.1 billion from the FRG, the United States, France, the United Kingdom, and the World Bank mostly to procure advanced equipment. The GDR's work in this area also greatly increased over that of the 1960s.

Table 1: East Europe's Debt Service Relations with Advanced Western Nations  
(Units: \$100 million)

	<u>Poland</u>	<u>Yugoslavia</u>	<u>GDR</u>	<u>Romania</u>	<u>Hungary</u>	<u>Czechoslovakia</u>	<u>Bulgaria</u>
1971	8	26.99	14	12	8	2	7
1972	15	39.33*	16	12	14	6	10
1973	19	27	21	20	9	8	8
1974	39	34	28	26	15	11	12
1975	69	59.26	38	29	22	15	15
1976	102	50	55.4	33	28	21	23
1977	128	65	65	38	37	27	27
1978	163	75	73	45	58	32	30
1979	204.9	137.32	101.4	68.9	73.2	40.2	45
1980	230	170	144.1	95.6	90.9	47.6	35.6
1981	255	187	148.6	101.6	87	45.1	30.7
1982	248	196	130.4	97.7	77.2	41.4	27.6
1983	264	190	93	83	62	37	15

2. Changes in international market conditions and the implementing of protectionist trade policies by Western countries greatly increased the debt burden of East European countries. Poland is the only East European country able to be self-sufficient in coal. Romania's degree of self-sufficiency in oil is rather high, but the other five countries have to import great quantities of energy and raw materials from the international market. Aside from Romania, Hungary and Bulgaria, the other four countries must import great quantities of grain. Taking the start of the sharp price increase in oil on the international market in 1973 as a starting point, all the fuels and raw

\*All foreign debt including debt service to advanced Western countries.

Sources: (1) Relevant annual state economic development reports and statistical almanacs of East European countries; (2) statistical materials of the U.S. Central Intelligence Agency and Commerce Department.

materials that East Europe must import have risen greatly in price while the price of traditional exports, such as mechanical and electrical goods, petrochemicals and textiles, have risen only slightly or not at all, producing a trade deficit for the seven East European nations year after year. Comparing 1981 to 1973 in Yugoslavia for example, the cost of importing 1 ton of crude oil rose from \$16 to \$300, a leap of 17.75-fold. As for Yugoslavia's export commodities, very few increased in price more than once over (except for minerals). Thus, from 1973 to 1980 Yugoslavia's foreign trade deficit amounted to \$33.5 billion, of which \$19.5 billion worth was due to increased prices of imported goods, which is 58 percent of the total. For the same reason, in the 1973-1978 period Hungary's foreign trade losses reached \$14.5 billion, equivalent to one-half of the 1978 gross value of national output. Because of oil price increases in 1979, Poland paid out 2.82 billion and Romania paid \$1.5 billion in 1980 for the same reason. From 1971 to 1978 Poland's trade deficit with the West reached \$18 billion, and since 1973 the GDR's trade deficit with the West has exceeded \$10 billion. Foreign trade deficit is the basic cause of foreign borrowing by Czechoslovakia and Bulgaria.

The economic slump in the West plus the protectionist policies adopted there from the second half of the 1970's to 1982 have limited in many ways the exports of the East European countries. Romania's exports to the West alone fell by nearly one-half. Thus, it is hard for East Europe to decrease its trade deficits by increasing exports, and they can only bridge the gap with the Western countries by taking deficit payments that cannot be met and turning them into interest-bearing loans or seeking to add them to their debt service.

3. The high interest rate policies of the Western countries put East European countries even more into debt. In the early half of the 1970's the interest rate on international loans in general was approximately 6 percent. But in 5 or 6 years when the East European countries encountered economic difficulties and were to pay back the large amounts of borrowed funds, international interest rates were commonly up to 12-15 percent and at their highest reached over 20 percent (the interest rate on intergovernmental guaranteed credit was relatively low but normally there were attached severe losses of borrowing country sovereignty and benefits). East European countries, therefore, accepted these exploitive interest rates, with the serious result that their foreign debt would double every 5 to 6 years. At present, about 20 percent of the East European countries' total foreign debt is interest. In 1980 Poland's was about one-third, and from 1981 to 1985, of the \$23.7 billion total debt service to be paid to the West by Yugoslavia, \$10.7 billion or 45 percent of the total is interest.

4. The use of foreign credit was inappropriate, and there was no unified structure for borrowing from abroad. The use of foreign funds in East Europe was commonly put to heavy processing industry departments and light basic trades. For example, in Poland there were large increases in the specialized equipment and production lines for automobiles, picture tubes, electrical machinery and other industrial departments, to the point where raw material supplies could not meet demand, and one-third of imported equipment could not be transformed into productivity and over \$30 billion worth of borrowed funds

were actually frozen. If this gigantic sum had been invested in financially starved agriculture, this would have increased agricultural investment twofold, guaranteeing agricultural self-sufficiency and within 5 years could have saved \$10 billion in payments for imported grain. Since they took these large funds and invested them in electrical machinery and metal-processing departments and invested too little in fuels, this produced a rapid increase in the demand for imported energy and raw materials which also helped produce a negative impact on the foreign trade deficit. With regard to matters such as the borrowing of foreign credits relating to the important problem of foreign economic relations, these countries were unable to unify the responsible authorities and they had no power to control the trend toward indiscriminate foreign borrowing, and the redundant and blind use of foreign capital import projects by localities and enterprises, causing an increase in the foreign debt burden. As in the case of Yugoslavia, due to the innumerable confederated labor organizations able to directly borrow foreign credits, in the last 5 years of the 1960's foreign debt doubled to \$2 billion, far higher than the levels of the other six countries in the same period. In 1973, Poland allowed enterprises to borrow foreign credits and after 1 year foreign debt quadrupled. The GDR, Romania and Hungary control the foreign borrowing by enterprises relatively strictly, and in this area losses were very few.

## II. The Positive Role of Foreign Capital in East Europe's Economic Development

In the 1970's hard-currency debt service often was equivalent to more than 5 percent of Eastern Europe's gross value of output and, for example, in 1978 the figures were: Romania, 7.4 percent; GDR, 9.4 percent; Poland, 15.7 percent; Hungary, 20.3 percent; and Yugoslavia, 24.6 percent; speeding up the increase in the East European countries' productivity investments. For example, from 1971 to 1978 Poland's total investments increased 160 percent, and fixed assets increased nearly 93 percent. About 80 percent of Romania's productive fixed assets were created from 1973 to 1982. From the 1970's to the 1980's Western loans went from 17.9 percent to 30 percent of Yugoslavia's total state investment. The transformation of foreign funds into great new increases in productivity meant a relatively large role in the economic development of Eastern Europe.

1. The introduction of Western technology and equipment since the 1970's has greatly modernized and intensified the economies and technology of East Europe. By the beginning of the 1980's, 65 percent of Yugoslavia's labor tools were automated to a high degree. Of present industrial equipment, 41 percent has been in use for less than 5 years and 72 percent for less than 10 years. At the end of the 1970's about 70 percent of Poland's state-run industrial enterprises' machinery and equipment was renovated. Using the more than 400 patents imported from the West during the 1970's Poland attained for itself the world's advanced levels in coal liquifaction, shipbuilding, prospecting, steelmaking and other technologies, and even established an advanced computer industry. In the same period, Romania also imported from the West several hundred patents and equipment, technologically transforming practically all industrial departments and the rate of industrial product renovation reached 45 percent. By means of joint ventures with British Airways

and Britten-Norman, Romania could become the most advanced East European maker of medium-size and light passenger airplanes using the batch process. The use of foreign capital also allowed Romania's petrochemical industry speedily to reach 10th ranking in the world and become the largest source of foreign exchange. It already can export over 700 kinds of products to over 100 countries and regions. From 1970 to 1982 the GDR imported 825 Western patents and this to a great degree helped to preserve its technological and economic leadership in East Europe. Up to 1976, there were 468 Western-subsidized and managed production and scientific-technical projects in Hungary. A certain number of the American patents among them made several Hungarian enterprises' energy consumption requirements for production of aluminum oxide lower than Japan's level for the same industry, putting them in the leading position in the world.

Broad utilization of modern technology and equipment promoted the rapid rise in East Europe's labor productivity. Poland and Hungary's industrial production increases in 1979 were due by 100 percent to the realization of higher labor productivity, in the GDR it was 90 percent, and in Romania over 85 percent. For Bulgaria, which imported relatively little Western equipment, the figure was only 75 percent.

2. Foreign funds had a role in promoting the creation of higher export commodity productivity in East Europe. Foreign trade comprises over 25 percent of the national incomes of the East European countries and for most of them it is more than one-third. Expanding exports is the prerequisite for increasing imports. Therefore it is essential for the long-term development of East European economies that they make a great number of competitive and "hot selling" products for the international market. All the East European economic departments that have undergone technological transformation with advanced Western technology have improved their ability to produce "hot selling" products. For example, on the basis of using imported patents, ocean-going transport vessels, such as container ships, natural gas transports, and refrigerated ships made in Poland, have been exported to over 30 advanced countries despite the generally depressed conditions of the world shipbuilding industry in recent years. Oil-extraction equipment manufactured by Romania has developed to where it is in great demand internationally and in quantity of exports it squarely occupies second place in the world. Romania also exports civilian aircraft to several tens of countries including the Soviet Union, thus drawing the world's attention. Hungary's aluminium oxide, meters and pharmaceuticals, and Yugoslavia's huge ocean vessels, metals and leather goods are all products with good reputations on the international market.

3. Foreign funds have laid a foundation for raising East Europe's energy self-sufficiency. Energy insufficiency is a great barrier to the economic development of East Europe. East European countries' economic growth rate has slowed or shown serious difficulties in recent years, and practically all of them are directly related to increased productivity and insufficient energy resources. Since the mid-1970's the East European countries coincidentally adopted policies to strengthen the development of their natural resources and raise their self-sufficiency in energy. This often required huge backup sums of funds: the main measure adopted by the GDR to increase production of

lignite was deep mining, and this produced a two- to threefold increase of coal. Romania's new oil resources were generally coastal. To dig deepsea oil wells of over 3,000m cost \$50 million and to construct an ocean oil-drilling platform cost up to \$100 million. Yugoslavia, Poland and Hungary each had to spend huge sums of more than \$1 billion to plan, construct and put into operation nuclear power stations with visible economic results that could be guaranteed raw materials within CEMA. The East European countries were alone unable to implement these projects in the 1970's and the 1980's without large loans from the West. Because they secured credit from the advanced Western countries, the East European countries have completed or nearly completed these kinds of vast investment projects. In this way, by the early 1990's Romania will be completely self-sufficient in energy, and the proportion of energy imports for the other countries will fall below one-third. This will mean a rather high-speed development in the future for the economies of the East European countries and the setting of a solid foundation for these efforts.

### III. East Europe's Prospects for Overcoming Debt Service Difficulties

At present the East European countries are beginning to recover from "sinking into ditches" which began in the early 1980's. Because large loans were borrowed from the West in the 1970's the degree of economic concentration of the East European countries will further increase and the many modernization projects imported and put into operation will reach their designed capacities. This will increase the competitiveness of export goods while lowering some energy import needs. Meanwhile, economies of the Western advanced countries have begun to recover and imports and exports are both increasing. The price of imported crude oil, which caused huge deficits for the East European countries, will remain stable throughout the 1980's. East Europe's most important trade partner, the Soviet Union, has had a slight rise in economic development recently, and it is possible that it will continue to supply the major portion of the energy and raw materials needed by the East European countries. Therefore, those factors hindering East Europe's economic development have weakened and East Europe's debt service difficulties will greatly lighten before the 1990's. Except for Yugoslavia and Poland, the foreign debt of the other five countries may fall enough so yearly repayments of interest will be below 20 percent of yearly foreign exchange earnings, and foreign debt will no longer have such great negative effects on national economic development.

In 1981, Western credits borrowed by the GDR reached \$13 billion, and interest payments amounted to over 40 percent of exports to the West, but it was still able to meet the payments. This was mainly because: (1) Many GDR products, such as optical equipment, printing and textile machinery, and precision machine tools, are very competitive on the international market. (2) The proportion of national income making up state revenues is rather high (in 1980, 85.9 percent), giving the state the financial ability to meet emergencies. (3) Nationwide energy conservation movements decreased demand for imported energy and raw materials to a certain degree. (4) Grain production broke the 10-million-ton mark, decreasing the amount imported and allowing the \$250 million earned every year by exports of technology and patents to pay for it.

(5) In recent years intercourse with the FRG has tended to become more intimate, allowing the attainment of foreign exchange and long-term, low-interest loans. Furthermore, many vacation spots have yet to be opened to the outside; this is also a potential source of more foreign exchange earnings. Among the East European countries only the GDR has so many advantageous conditions for repaying foreign debt. Provided no new loans were made, within 1 year the GDR could completely repay the West \$3 to 4 billion without the need for extensions of debt repayments. At present the GDR still has over \$9 billion in borrowed Western credits and \$3.4 billion in creditor's rights and funds in Western financial organizations, so even many Western economic specialists see no payment difficulties for the GDR.

Fifty percent of Hungary's national income comes from foreign trade, with about 60 percent of the value of imports in energy and raw materials and 70 percent of exports in processed goods. Price fluctuations on the international market and protectionist trade policies by the West obviously make it more difficult for Hungary to eliminate its trade imbalances compared to certain other East European countries. In the 1970's in terms of per capita debt burden, Hungary was the highest of the seven East European countries, 24 percent higher than Poland and 17 percent higher than Yugoslavia. However, Hungary's economic structural reforms were relatively comprehensive and fundamental, and so on the basis of a large-scale increase in returns to labor and enterprises the state's economic strength was continually strengthened, enough to produce in a relatively short time a sudden turnaround in the international economy. After the 1973 price increases in world energy and raw materials, Hungary adjusted its economic development strategy relatively quickly and invested large sums in coal mining, industry and agriculture. At that time, several East European countries saw no benefit to this. The result was that when the international price of agricultural goods rose in the second half of the 1970's, the yearly average grain exports to the West were 1 million tons; meats, 250,000 tons; fruit, over 400,000 tons, and 450 million eggs. Exported poultry and meat usually comprised 13 percent of the world figure, number one in Europe and an earner of large amounts of foreign exchange. Since the 1980's Hungary's coal production has increased 52 percent, equal to an increase of 9.6 million tons of energy from crude oil compared to 1979 and equivalent to the rather high years of crude oil imports during the 1970's. The coal production has greatly reduced the burden of crude oil imports. Along with other measures taken, Hungary's foreign trade imbalance has quickly fallen, and the past 3 years have seen a straight favorable balance. Further good developments in the economic reform have let Hungary look forward to earning a \$0.5 to 1.0 billion annual surplus in the 1980's. Tourism may also add an additional \$200 million in hard currency to yearly income. Hungary can also look to borrowing funds from the IMF whenever there are payments difficulties. Within the next 5 or 6 years it is predicted that Hungary will be able to pay back \$500 to \$800 million of principle and interest annually. By the end of the 1980's the current \$6.2 billion borrowed from the West will probably only amount to from \$1.5 to \$2.5 billion.

In the latter part of the 1970's Western credits borrowed by Romania far exceeded the \$3 billion limit maintained for many years. In 1981 the \$10 billion barrier was broken. The sharp increase in Romanian foreign debt was

mainly due to the country's inability to respond to the extraordinary price changes in the international market on time or to alter its economic development policies. Since 1981 the Romanian Communist Party and government has implemented a strict economic readjustment policy of seldom seen proportions. First priority was given to agriculture, fuels, and industry in the development of the state economy, large-scale projects high in energy consumption and low in results have been cut back, its own natural resources have been energetically developed and the dependence on imported energy and raw materials has been reduced. Economic adjustment has brought clear results. Domestic oil refining capacity was appropriately held to 24.7 million tons, a reduction of nearly 10 percent from the high point reached in 1978 reducing oil imports by more than 3 million tons and decreasing total imports 7.4 percent and so enabling the previous 4 years of foreign trade deficits turn into surpluses in 1982. It is possible that Romania will achieve its target of energy self-sufficiency by 1990. This implies a future annual savings of \$2 to \$3 billion. In addition, Romania has already established over 40 manufacturing and foreign trade joint ventures with advanced Western countries in Europe and North America, thus creating favorable conditions for expanding exports to the West. In these ways after foreign trade turned to surplus 2 years ago, in 1983 a \$2,418,000,000 surplus was gained, more than twice the surplus of 2 years ago. This allowed Romania to repay foreign debts of about \$1.5 billion last year. As a member of the IMF, Romania was able to obtain long-term low-interest loans even more easily than the GDR, Poland, Czechoslovakia, and Bulgaria; tourism can increase yearly foreign exchange earnings potential by \$400 to \$500 million in the last half of the 1980's. The Romanian Government announced that in the future under normal circumstances it will not borrow from Western banks again. In this respect, so long as there is no great natural disaster by the end of the 1980's Romania should reduce foreign indebtedness to \$2 to \$3 billion.

Poland's amount of foreign indebtedness is seventh in the world and first in East Europe. Nonetheless, its prospects for repayment are not hopeless because Poland's economic potential among the East European countries is relatively great, its variety of export goods is wide and volume is large, and even though its annual repayment rate cannot fall below the 25 percent level, its economy can still recover to a relatively high rate of development. Only in 1977 after Poland's borrowing reached \$13 billion and its repayment rate rose to 45 percent did its economic mechanism begin to fall into disorder and economic difficulties begin clearly to multiply. Only if Poland's borrowings fall steadily can its economy gradually recover normal functioning. Within the next 5 years this may be accomplished.

The precondition for Poland's quick debt repayment is the conclusion of its political and economic crisis period. In 1983, Poland's coal production had already surpassed the predisorder 1978 level, and at that time Poland's exports of anthracite ranked second in the world, and was an item in great demand by West European nations. Tonnage produced of oceangoing transport vessels which are greatly welcomed on the international market also greatly exceeded the 1982 level. For many years these two exports have accounted for over one-third of total exports, and for the next 5 or 6 years these two export items can hope for 10 to 15 percent increases. Copper, silver, lead, zinc, and sulphur are also exports with high foreign exchange earnings, and chemicals and electrical equipment are also considered very marketable.



Imports of crude oil and grain are the chief cause of foreign trade deficits, in 1980 the two accounted for payments of \$6 billion, equivalent to the amount of yearly exports to the West by Poland. But for the past 3 years there have been bumper harvests of grain and in 1983 grain imports fell to 3.9 million tons, lower than the 1980 high point by 58 percent, saving about \$1.2 billion in foreign exchange. In accordance with the rapid increase in agricultural investment, over the next 5 to 6 years annual grain imports may progressively fall to 2 to 3 million tons. In recent years, Poland has energetically transformed its petroleum-based energy structure and has already seen results of its diligent development of its own natural resources. Comparing 1979 to 1970, the import share of metallic ores fell 14 and 77 percent, respectively. Poland's difficulty in buying oil outside of CEMA with hard currency may come to an end. The large-scale projects built during the 1970's with foreign credits are just coming into production, decreasing the demand for certain imported commodities. Comparing 1979 to 1970, steel imports decreased 48 percent, phosphate fertilizers dropped 25 percent, and pig iron and iron alloys decreased 7 percent.

Poland also has a few strengths in invisible trade. The tourism department's annual record of 10 million foreign visitors and will soon be topped, with yearly foreign exchange earnings increasing 20 to 35 percent. Poland has already sent 260,000 engineering and technical personnel to 16 countries and patented projects at world levels are continuously increasing.

There will be an obvious decrease in Poland's total foreign debt after 1985 and before the end of the 1980's it is possible that the current \$11 billion borrowed from foreign banks will be paid off and one-third to one-half of the \$14 billion in government loans will be paid back.

After Poland, Yugoslavia's amount of foreign debt is the next largest among the East European countries, and in recent years has led these countries in total debt per capita. Aside from the reasons for increasing debt in common with other East European countries, since 1965 Yugoslavia has also seen tendencies of racialism, regionalism and selfish departmentalism raising their heads and causing macroeconomic dislocations. Even now, the federation still lacks a totally unified domestic market and the eight republics and autonomous regions each seal themselves off from the rest. There have been certain improvements in interrepublic assistance and cooperation since the long-term economic stabilization program was passed by the federal legislature in 1982.

In 1983, Yugoslavia's balance of payments showed a balance for the first time in a long time, but most of the export increase was due to the devaluation of the dinar; most of the decrease in imports was due to decreases in production capacity and cuts in consumption. In the past several years, for every 1 percent fall in Yugoslavia's imports of energy and raw materials, national income would drop 1.4 percent. Since 1979, the standard of living has declined and so these measures to solve the foreign trade imbalance have great shortcomings.

For many years past the fiscal revenues of the Yugoslav Federation only amounted to 20 percent of national income. The country not only has had the



weakest state finances in East Europe but moreover the federation's authority is the weakest among all the East European states. Every republic, autonomous region, and even federal labor organizations still maintain their right to make investments, borrow from foreign banks, and conduct foreign trade. The seven republics and autonomous regions each purchased from a company of the FRG the same patent license, ignoring the larger issues and this makes it difficult to control the amount of foreign debt and put a stop to this problem in the future. In the middle term, the economic and technological conditions for eliminating the trade imbalance do not exist, even though overseas remittances and tourism will earn annually \$6 billion and make up for part of the imbalance. Yugoslavia's burden of over \$5.5 billion in repayment of principle and interest over the next 5 years, it is feared, may have to be mostly rolled over, in turn adding new interest burdens.

It is forecast that Yugoslavia's debt burden will still increase in the 1980's and may surpass that of Poland. Only in the 1990's will there be an obvious decrease in foreign borrowing.

For most of the 1970's Czechoslovakia and Bulgaria borrowed relatively little from the West and they owe much less than the other five countries. Nevertheless, this situation made the ratio of new equipment and economic results low in these two countries, since they lacked high-grade commodities able to penetrate the international market, and thus created difficulties in earning hard currencies to pay back loans. Czechoslovakia ran 11 consecutive years of trade deficits with the West making it difficult to pay everything back before 1990, and the \$3.7 billion borrowed from the West will only be lowered a small amount by the end of the 1980's. In the latter part of the 1980's, Bulgaria will not have to pay back on the scale of over \$500 million annually as it did in the past and by the end of the 1980's it is predicted that it will be able to pay back all loans.

#### IV. Lessons of Foreign Borrowing by Eastern European States

1. A comprehensive survey and assessment of foreign borrowing by East European states shows that "gains" far outweigh "losses." The "gains" have a long-term role while the "losses" are short-term. Moreover, it should be clearly pointed out that the chief factor for those East European countries that developed economic difficulties was not heavy foreign borrowing, but the inappropriate use of foreign capital or the poor management of foreign debt. The GDR's and Hungary's rate of debt repayment was rather high but it did not create payment difficulties. From a different perspective, it was explained that the main problems were utilization and management. It is naturally inappropriate to ignore ability to repay and borrow too much, but it must also be recognized that it is a mistaken policy to renounce foreign credits when the time is favorable internationally. A crucial lesson is Czechoslovakia's failure to use foreign funds and import advanced equipment. This affected the replacement of technology and equipment, and so the former "hot selling" goods on the international market became unsalable goods within 10 years.

2. When making foreign loans, long-term plans must be formulated on the basis of feasibility studies and economic result analyses made by special groups

under the leadership of a single unit which makes uniform examinations and approvals. The blindness of Yugoslavia's seven-time purchase of an identical patent license and duplicate imports must be avoided. Large-scale projects such as the steel works in Kätowice, Poland and the petrochemical complex in Navodari, Romania which were never fully studied must be prevented and those that are high in energy consumption, inefficient, requiring huge amounts of capital or are slow to produce marketable commodities must be avoided.

3. Selection of projects using foreign capital requires taking account of the base and processing departments, paying attention to the overall balance and preventing the simple development of short cycle and fast startup processing industries, or the lagging behind of basic industries due to dependency on imported fuels and raw materials. Falling into using large sums for constructing long-cycle, large-scale basic department projects that far and away cannot attain the designed capabilities should also be avoided. Use of foreign funds in this way will yield relatively large results and will not turn into "a millstone around one's neck."

4. We must improve long-term forecasts of world financial and trade markets. Poland and Romania are going the Japanese way of comprehensive economic development using development of processing industries to move the state economy and earning very large results, but this carries very great risks. If we can produce timely and accurate middle- and long-term forecasts of world market conditions, the country will be able to adjust economic strategy to meet international changes and so will not have the serious economic difficulties of the 1970's and 1980's.

5. We must avoid simple loans and imports and strive for increasing joint ventures and joint marketing. The profit-seeking instincts of the Western capitalist class will not change. Only by both sides sharing risk and commonly bearing profits and losses will there be a reliable guarantee of the quality of a cooperative project and can accidents be easily resolved in a timely way. Romania, Yugoslavia, and Hungary all have gained much good experience in joint ventures and China should draw lessons from them.

12615

CSO: 4006/310

PUBLICATIONS

BRIEFS

NEI MONGGOL INFORMATION PAPER--NEIMENGGU XINXI BAO (NEI MONGGOL INFORMATION PAPER) will be published throughout the country from 1 June. The paper was jointly established by the Nei Monggol Economic Commission and the Nei Monggol Radio and TV Department. The paper will be published weekly. [Summary] [Hohhot Nei Monggol Regional Service in Mandarin 1100 GMT 11 May 85 SK]

BEIFANG XINXI STARTS PUBLICATION--The first issue of BEIFANG XINXI [NORTHERN INFORMATION], the first publically-available published information paper in our province, started publication on 3 January. Comrade Qiang Xiaochu wrote an inscription for the paper, "Spreading Information and Enlivening the Economy." Comrade Zhao Xiu wrote an introduction to the paper, "information is Wealth." Comrade Hao Mingguang and Liu Shulin, respectively, wrote articles putting forward expectations and demands for publishing BEIFANG XINXI well in order to promote economic reform and development. BEIFANG XINXI is published on Thursdays and is for sale in both urban and rural areas of the whole country at post offices. [Excerpts] [Changchun JILIN RIBAO on Chinese 3 Jan 85 p 1 SK]

CSO: 4006/643

AUTHOR: OWADA Takie [1129 0735 3944 3392 1920]

ORG: Jochi University [St. Sophia University]

TITLE: "How ASEAN Nations Raise the Levels of Technology Transfers"

SOURCE: Beijing SHIJIE JINGJI [WORLD ECONOMY] in Chinese No 2, 10 Feb 85  
pp 35-39

ABSTRACT: Restraints on technology transfert to ASEAN nations include a lack of incentives in developed countries to license advanced technology, high unempolymnt rates, small markets, limited capital supply, low equipment assembly sophistication, and political instability. Coping with these restraints, the ASEAN nations have adopted the following measures: relying on export, multi-model production, using the combination of labor-intensive and equipment-intensive modes, pre-transfer surveying, and upgrading the core industries. Among the ASEAN nations, only Singapore has successfully carried out technology transfers. At the outset, low wage rates attracted foreign capital for economic growth. However, a high wage policy has been recently adopted in Singapore to raise the purchasing power of society as a whole; this policy smoothes the adjustment from labor intensive type to equipment (capital) intensive type industries. There are also problems in raising the technical absorption capability of these ASEAN nations, mainly owing to the generally low technical level among technicians, absence of challenges to aspire to higher levels, frequent employment changes, and lack of product quality appreciation. Here again, Singapore only faces the problem of frequent empolymnt changes among technicians but not the other problems that Malaysia, Thailand, Indonesia and Philippines have confronted.

10424

CSO: 4011/22

TAIWAN

ADB REJECTS PRC 'SCHEME' FOR ADMITTANCE

OWO71418 Taipei Domestic Service in Mandarin 2300 GMT 3 May 85

[Text] Chang Chi-cheng, president of the Central Bank and leader of the Republic of China's [ROC] delegation to the 18th annual meeting of the Asian Development Bank [ADB], returned to Taiwan on the evening of 3 May. Upon his arrival at the Chiang Kai-shek Airport, President Chang said that the Chinese Communist regime strengthened its united front activities at the 18th ADB annual meeting in an attempt to expel the ROC from ADB membership. On the premise of firmly safeguarding the ADB Charter, we and other participating countries finally shattered the Chinese Communist regime's insidious scheme.

Here is a report by (Chao Hong), a correspondent with the Chinese Broadcasting Corporation:

[Begin recording] [Chao Hong] President Chang Chi-cheng said that at the ADB's 18th annual meeting, the Chinese Communist regime resorted to various united front tactics in an attempt to change our country's name in the ADB membership, force us to withdraw from the bank, and be admitted to the ADB. First the regime submitted an application for ADB membership to the Steering Committee of the annual meeting on the first day the meeting opened. After its application was rejected, the regime put pressure on ADB President Masao Fujioka to call a provisional meeting of the Council of Executive Governors, but its pressure was also ignored. After it exhausted all its tricks, the Chinese Communist regime issued unilateral statement to distort all the facts. The distorted facts were immediately denied by the ADB president.

[Chang Chi-cheng] The Chinese Communists have tried their best for many years in an attempt to shoot themselves into the ADB. At the 18th annual meeting, they stepped up their united front activities among many participating countries to solicit their support for the Chinese Communist regime's membership. We, of course, adopted various countermeasures. And we won the support of a great majority of the participating countries. So, the regime's application for membership was not included in the ADB annual meeting's agenda and its attempt to worm its way to the ADB was thwarted. But, it will not give up trying; it will continue to resort to various tactics to pressure the ADB to admit it. We must, therefore, pay close attention to the development of this case. [End recording]

President Chang Chi-cheng stressed: Our consistent stance at the 18th ADB annual meeting is that any country's application for ADB membership should be submitted on a case-by-case basis so that the application shall not affect the existing membership countries' status and rights. Our stance won the support of the overwhelming majority of participating countries. President Chang pointed out: Although the Chinese Communist regime's attempt to worm its way in to the ADB at its 18th annual meeting failed, the regime is expected to continuously pressure the ADB to change our name in the bank. Our government will closely watch the Chinese Communists' insidious scheme, firmly adhere to our country's basic stance, and handle the case with meticulous care so as to safeguard our national status, rights, and interests in the ADB.

CSO: 4006/622

TAIWAN

# TAIWAN FAVORS FREE TRADE ZONE PACT WITH U.S.

OW251439 Taipei CNA in English 1405 GMT 25 May 85

[Text] Taipei, 25 May (CNA)--The Economics Ministry announced Friday that a free trade zone agreement between the Republic of China [ROC] and the United States could solve many existing trade problems.

As part of an international trend toward protectionism, the ministry said, tariff and non-tariff barriers have restricted the development of a free trade system. To change the direction of this growing trend, some countries have signed free trade zone agreements. Israel, for example, has agreements with the European Common Market and the United States.

According to the Economics Ministry, an agreement is becoming more essential as the United States gradually is eliminating Taiwan-made products from this generalized system of preferences, which allowed duty-free status for many goods from developing countries. In addition, U.S. import restrictions have further hampered ROC exports.

Therefore the ministry said, a free trade zone agreement could benefit both sides. Such an agreement would allow more favorable export conditions for U.S. products and would encourage the transfer of technology from the United States. In addition, it would also subdue U.S. criticisms that the Republic of China is not liberalizing trade restrictions quickly enough.

More important, the ministry said, since the Republic of China is not a member of the General Agreement on Tariffs and Trade, a free trade agreement might also help expand the nation's economic relationships with other countries.

CSO: 4020/238

TAIWAN

CABINET APPROVES MEASURES TO ATTRACT INVESTMENT

OW280433 Taipei CNA in English 0246 GMT 28 May 85

[Text] Taipei, 27 May (CNA)--The Executive Yuan has approved a suggestion by the Ministry of Economic Affairs [MOEA] to allow foreign companies to buy stock in local companies in order to attract more foreign investors to this nation.

Wang Chih-kang, executive secretary of the MOEA investment commission, said recently that the government has decided to adopt a series of measures to attract foreign investment. These measures, he said, include:

- Increasing the number of categories for foreign investment to include those related to the production of daily commodities, advertising and language consultancy;
- allowing foreign invested companies to engage in external trade activities;
- loosening requirements on export levels and the amount of foreign capital for a foreign-invested company;
- cancelling the regulations governing remittance of foreign capital; and
- allowing foreign companies to buy stock in local companies.

Wang pointed out that the MOEA approved a total of 174 foreign investment applications in 1984 with an aggregate capital of U.S. dollar 558 million, the highest in recent years.

CSO: 4020/238



TAIWAN

OFFICIAL VIEWS TRADE WITH AUSTRALIA

OW282152 Taipei CNA in English 0956 GMT 28 May 85

[Text] Taipei, 28 May (CNA)--Trade relations between the Republic of China [ROC] and Australia continue to be healthy with the economies of the two countries interdependent and complementary to each other, C. F. Koo, chairman of the ROC-Australia Trade Association, said Tuesday.

Koo spoke at the opening of the first meeting of the ROC-Australia Trade Association and the Australia-based Taiwan Trade Association in Taipei. Koo and Sir Charles Court, chairman of the Australian association, presided over the meeting.

Koo said that the Republic of China is already Australia's seventh largest trading partner. Total trade between the two countries amounted to U.S. dollar 1.61 billion last year, with U.S. dollar 832 million for exports and U.S. dollar 778 million for imports, Koo said.

In the first 4 months of this year, Koo said, Taiwan's trade with Australia was U.S. dollar 457.60 million, with U.S. dollar 234 million for exports and U.S. dollar 223.60 million for imports.

The trade figures, Koo said, indicate a balance in Sino-Australian trade. Taiwan's trade with Australia, however, Koo said, accounted for only 3.8 percent of its total foreign trade in 1984.

With its foreign exchange reserves as high as U.S. dollar 17 billion, Koo said, the Republic of China is eager to spend more on imports. Koo thus urged Australian businessmen to make more promotional efforts to tap the potential market here.

Australia produces foodstuffs, fibre, energy and raw materials, Court said, while the Republic of China focuses on enterprise, initiative, technology and capital. The two countries have a bright future for trade, investment and technological cooperation, the Australian business leader said.

Court also said that the Taiwan Trade Association in Australia has won hearty support from the Australian business community since it was established last November. "Our membership is over 40 and expanding," Court said.

Court, leading a 45-member trade group, arrived in Taipei Sunday to attend the meeting.

During their visit, the Australian visitors will meet with Chinese officials and business executives to explore trade opportunities.

CSO: 4020/238

TAIWAN

# LI TA-HAI DENIES GE NUCLEAR REACTOR PURCHASE

OW182351 Taipei LIEN HO PAO in Chinese 11 Apr 85 p 3

[Text] According to a dispatch from Taipei, Minister of Economic Affairs Li Ta-hai said yesterday: The Ministry of Economic Affairs has not discussed the purchase of a nuclear reactor with any U.S. factory or business corporation. Nor has it discussed loans with any foreign bank.

He told a reporter: It was reported that the government had already signed a contract with the U.S. General Electric Company to procure a nuclear reactor and that it had already decided to obtain a loan from the U.S. Import and Export Bank to build the No 4 Nuclear Power Plant. This is completely untrue.

Li Ta-hai clearly pointed out that as far as he knows, these two contracts have never been signed.

Chen Lan-kao, chairman of the Board of Directors of the Taiwan Power Company, also said: Over 2 years ago, the Taiwan Power Company opened an international bid for the procurement of a reactor for the No 4 Nuclear Power Plant. The procurement was later suspended due to changes in the economic situation.

He denied that the Taiwan Power Company had a preference for the reactor built by a certain company in the United States. At the same time, the Taiwan Power Company had also never negotiated with the U.S. side for loans. Chen Lan-kao said: If the No 4 Nuclear Power Plant plan is approved, an open international bid will be announced once again for the procurement of the relevant equipment.

CSO: 4006/584

TAIWAN

NISSAN INVESTMENT IN TAIWAN CAR COMPANY APPROVED

OW280439 Taipei CNA in English 0302 GMT 28 May 85

[Text] Taipei, 27 May (CNA)--The investment commission under the Economics Ministry approved the Nissan Motor Company of Japan Monday to invest in the Yue Loong Motor Co., Ltd. to help produce cars and parts here.

The commission agreed at a meeting Monday that Nissan will invest NT [New Taiwan] dollar 2.6 billion (U.S. dollar 65 million), occupying a 25-percent share of Yue Loong's capital and the investment will be accomplished by directly buying Yue Loong's stocks on the stock market here. Yue Loong's stocks are bought and sold publicly on the market.

The commission has decided to take a more flexible policy on the ratio of car products to be exported under foreign investments. The new policy has been submitted to the Economics Ministry for approval.

The commission now provides that beginning from the third year of Nissan's investment, 25 percent of the new products should be exported.

Yue Loong will set up an export unit to directly help export cars to be manufactured with Nissan assistance but bearing the Yue Loong Trademark, according to Yue Loong.

CSO: 4020/238

TAIWAN

#### BRIEFS

ECONOMIC GROWTH--Taipei, 29 May (CNA)--The Council for Economic Planning and Development Wednesday pointed out that the economic growth rate of this nation in the first quarter of 1985 was 6.18 percent, two points behind the council's projected goal. The gap between actual growth and projected goal, biggest ever since 1978, is due to some unpredictable factors such as the world economic recession and the slump of commodity prices in the international market. In addition to this, the council noted, the tenth credit loan scandal and the suspension of construction on the fourth nuclear power plant have also contributed to it. This nation's top unit in overseeing the implementation of the government's yearly budget, the Directorate General of Budget, Accounting and Statistics [DGBAS] Wednesday made a briefing report to the council about his nation's economic development in the first quarter of this year and the forecast of the second quarter. According to the report, DGBAS has cut the forecast of the economic growth rate in the second quarter to 5.28 percent on the strength of the substandard growth in the first quarter. [Text] [Taipei CNA in English 1512 GMT 29 May 85]

TELECOMMUNICATIONS MODERNIZATION--Taipei, 13 May (CNA)--The Directorate General of Telecommunications (DGT) has decided to invest NT Dollar 70 billion (U.S. \$1.75 billion) to modernize the Republic of China's telecommunication system within 5 years. Officials of DGT said the modernization plan is expected to be completed before 1990. The plan will cover rural telephone development, urban telecommunications facilities. When these projects are completed, officials said, Taiwan's telecommunications will enter a new era as the telecommunications network will cover all parts of the island. Under the rural telephone development project, 30 village-to-village switchboard facilities will be set up before June 1990. At the same time, 150 village-to-city switchboard facilities in the rural areas will be added to augment the present number. On the upgrading of telecommunications facilities, DGT said the Republic of China is joining other countries in the laying of submarine cables between Taiwan-Hong Kong-Singapore, Singapore-Saudi Arabia-France, Singapore-Indonesia-Australia, Pacific No 3 linking Hawaii-Japan-Guam, Pacific No 4 linking USA Mainland-Hawaii. Other works include: Building of the Second International Telecommunications Center in Kaohsiung. Setting up of Kaohsiung and Taichung long-distance exchange centers for 30,000 lines. Setting up of 7 long-distance telephone exchange centers in Taoyuan for 85,500 lines. Establishing of microwave line system in Taipei, Taichung and Kaohsiung. Setting up of Taipei-Hualien-Taitung-Kaohsiung microwave line system. Establishing Tainan-Penghu submarine cable system. [Text] [Taipei CNA in English 1013 GMT 13 May 85 OW]

HONG KONG MEDIA ON CHINA

PEOPLE'S BANK OF CHINA OFFICIAL ON HONG KONG LINKS, SHENZHEN BANKING

HK240441 Hong Kong SOUTH CHINA MORNING POST in English 24 Apr 85 BUSINESS NEWS Supplement p 1

[Text] The Shenzhen branch of the People's Bank of China may have to deal directly with bank regulators in Hong Kong, a bank official said yesterday. This follows a decision by China's State Council earlier this month to allow foreign banks, including those incorporated in Hong Kong, to set up branches or joint venture banks in the special economic zones.

The official, who is in charge of the finance supervision division of the People's Bank's Shenzhen branch also told BUSINESS NEWS a "finance club" is being organized in their city which will ask all foreign banks operating in Shenzhen to join. The club will serve as a bridge between foreign banks and China's Central Bank officials to exchange informal views on matters relating to Shenzhen's financial market.

At present, the People's Bank gathers information on Hong Kong's banking regulations mainly through the local branch of the Bank of China and there is no direct contact between the People's Bank and the Commissioner of Banking in Hong Kong.

The official, who declined to be named, said: "It may be necessary to establish a direct link with the Banking Commission in Hong Kong."

Since July the People's Bank has not engaged in commercial banking activities and has concentrated on functioning as a central bank. Said the official, "Since then, the bank has set up the finance supervision division, which, like supervisory authorities in other countries, monitors banks' activities."

From April 2, three types of foreign banks--foreign-owned banks incorporated in the zones, foreign banks' branches and joint venture banks--have been allowed to conduct business in the zones.

The People's Bank is drafting a number of measures to regulate the domestic financial markets. Although these rules will not apply to foreign banks, the official said he believes some measures to regulate lending by foreign banks will be necessary in the future. He said in the long run the foreign banks might be gradually allowed to participate in nonbanking services, such as insurance and securities business, in the zones.

He said Peking hopes that the competition resulting from the entry of foreign banks in the market will promote efficiency among China's domestic banks.

At the same time, although the foreign banks can deal in certain types of Renminbi transactions, subject to approval by the People's Bank, they are not free to do everything.

"There is still a distinction between the types of business domestic banks and the foreign-owned bank branches or joint venture banks can do in the zones," the official noted.

CSO: 4020/207

HONG KONG MEDIA ON CHINA

HONG KONG, MACAO MERCHANTS PRESSING PRC ON PARALLEL GOODS PROBLEM

HK240507 Hong Kong SOUTH CHINA MORNING POST in English 24 Apr 85 p 1

["South China Beat" column by Ophelia Suen]

[Text] Hong Kong and Macao merchants are seeking bold reforms in China's economic practices to stop them suffering further trading losses.

At present, blackmarket currency deals and lax control of exports are eating into the profits of established Hong Kong and Macao traders.

They want immediate changes before the confidence of businessmen is shaken too much.

Disgruntled merchants are currently using the 57th Chinese Exports Commodities Fair in Canton to hammer home their message to key Chinese trade officials.

And it has been learnt that the powerful Hong Kong Chinese General Chamber of Commerce has held eight meetings on the problem of parallel goods (exports through unofficial channels without documentation) and blackmarket currency during the past 16 months.

Sources said the chamber has let Peking know of its concern, and has tried to exert pressure on China's central government.

Chamber members believe their lobbying has already had some effect--resulting in the stringent measures announced last week to combat the export of parallel goods to Hong Kong and Macao.

While they welcomed the announcement to clamp down on parallel goods, some local merchants said such measures as export by licence and quotas are not strong enough to stamp out the problem.

They believe the situation has become worse as individual farmers, corporations, officials and subsidiary offices of Chinese companies in Hong Kong all joined in the scramble for foreign currency to fund local developments and improve the standard of living.

It has led to disorder in the traditional international trading channels, notably the twice-yearly trade fair in Canton.



Individual provincial trade departments have set up their own promotion corporations, many of which have attempted to establish overseas offices.

The heads of trade departments become general managers of the new corporations.

"The philosophy behind such a move is to remove exploitation by middlemen," said one Hong Kong wholesaler. "But this is just ridiculous. Chinese officials are not experienced enough in trade matters.

"The system of wholesaling and retailing which has been so successful over the years might be destroyed by such a move."

The situation in the Hong Kong market is also giving cause for deep concern, said the trader.

He was referring to the mushrooming of subsidiary offices of China-backed companies such as China Resources, Ng Fung Hong, Shun Tak and Chung Ngai.

He estimated that each of these companies has at least 20 subsidiary offices in Hong Kong.

"Any attempt at monopolising the wholesale and retail businesses in the Hong Kong market would be alarming. If this is anything to do with Hong Kong after 1997, the move is very unwise."

CSO: 4020/207

HONG KONG MEDIA ON CHINA

BANK OF CHINA LOANS TO OUTSIDE INVESTORS UP 77 PERCENT

HK010155 Hong Kong HONG KONG STANDARD in English 1 May 85 p 1

[Text] Outside investors in China received US\$4 billion financing from the Bank of China (BOC) in 1984, up 77 percent from the previous year, the general manager of the business division of its Hong Kong-Macao regional office said yesterday.

Speaking to a Rotary Club of Kowloon East meeting, Mr Lam Kwong-siu said 1985 first quarter figures had risen from last year's comparable period, though no specific numbers were as yet available.

To qualify for a BOC loan, and depending on the sector involved, outside investors need to put down 20 to 30 percent of the capital outlay.

China's investment needs are in energy, transportation, and tourism. Half of BOC investments is in those sectors, while aging industries will soon be joining the list.

He said some 1,000 firms from 30 foreign countries are currently operating in China.

Hong Kong is China's window on the world, and its expertise in many areas is important to China's modernisation efforts, he said.

Lam called on people here to have faith in China's policy of open door and economic liberalisation, as these could only change for the better.

BOC is a competitive lender, Lam added, urging investors to shop for the best terms around. There are no hard and fast rules, as everything depends on the amounts and kinds of investment.

In the same spirit of competition, Lam promised "fast and courteous service" to bank customers.

Local investors were warned against shady dealings and illegal activities in China, as these are the sure roads to failure.

There are limitations to the repatriation of profits, but every region calls it differently, Lam said.

18 June 1985

HONG KONG MEDIA ON CHINA

BANK OF CHINA TRADING IN EUROPEAN CURRENCY UNIT BONDS

HK020735 Hong Kong SOUTH CHINA MORNING POST in English 2 May 85 BUSINESS NEWS Supplement p 3

[Text] The Bank of China (BOC) has started trading in the European Currency Unit (ECU) bond market.

The bank has joined a syndicate of five banks to act as lead manager for a 40 million ECU long-term bond issue by Primary Industry Bank of Australia (PIBA).

As reported in BUSINESS NEWS yesterday, the issue is targeted, for the first time, at Middle and Far Eastern investors.

Banking sources said BOC's London Branch has been active in trading ECU bonds and floating rate notes for the past few months.

Peking is also studying the feasibility of investing part of the country's reserves in ECU's.

There are rumours in the London market that China may issue its first ECU bonds, but the move has yet to materialise.

It is not known at this stage to what extent the BOC group in Hong Kong will be involved in the PIBA issue. BOC officials are unavailable for comment.

But as the issue is targeted at the Far East, including Hong Kong, bankers believe that the local BOC group may start to delve into ECU bond trading.

A spokesman for Banque Paribas, one of the lead managers and book runner of the issue, told BUSINESS NEWS that it was the first time that an ECU bond deal was arranged through Hong Kong.

To date there have been several Asian borrowers, mainly from Japan, who raised funds by issuing ECU bonds, but these deals were done through London, the major Eurobond centre, and marketed in Europe.

For multinational companies or countries which have exposure to a variety of currencies, borrowings in ECU's will help them avoid exchange rate fluctuations.

The spokesman feels it logical for China to borrow in ECU's due to the increasing trade between China and Europe.

This means convenience for China as ECU's comprise a basket of European currencies.

"Response would certainly be good if China issued ECU bonds," he said.

The volume of the ECU bond market in Europe has grown substantially since April 1981 when the first public ECU Eurobond was launched.

According to the bank's statistics, at the end of last year bonds worth 3.43 billion ECU's were issued, 16 times that issued four years ago.

Bankers expect this move will encourage the development of the ECU market in the United States and the Far East.

The Paribas spokesman said that after PIBA, the New Zealand Government is due to issue bonds worth 200 million ECU's, the largest amount to date among other Far East borrowers' issues.

The bonds will be marketed worldwide.

This indicates a growing demand for ECU borrowings in the region.

CSO: 4020/207

HONG KONG MEDIA ON CHINA

HONG KONG LABOR LEADERS URGE INDEPENDENT MEMBERSHIP OF ILO

HK020449 Hong Kong SOUTH CHINA MORNING POST in English 2 May 85 p 1

[Article by Walter Cheung]

[Excerpts] Two local labour leaders will shortly go to the International Labour Organisation to study the possibility of Hong Kong being granted independent membership.

They will also ask ILO officials for their views on the drafting of the basic law for post-1997 Hong Kong.

During their 3-week stay in Geneva, they will invite ILO officials to come to Hong Kong to gather first-hand information about membership.

Mr Lau Chin-shek, director of the Christian Industrial Committee, and Mr Lee Kai-ming, secretary of the Federation of Hong Kong and Kowloon Labour Unions, will leave on May 28.

The centre is supported by about 30 labour groups with a combined membership of about 60,000, Mr Lau told a press conference when announcing a manifesto issued by 36 labour groups.

He suggested that Hong Kong be granted membership of the ILO instead of being represented by Britain before 1997, or China after that year.

Mr Lau said the problem was that under ILO regulations, no place represented by a member country could ratify more ILO standards than that member does.

The chairman of the Federation of Civil Service Unions, Mr Wong Wai-hung, said China had adopted no more than 20 ILO standards whereas Hong Kong had ratified 49.

The centre's suggestion is that Hong Kong's delegation to the ILO be named as Hong Kong, China.

Thus, Mr Lau said, Hong Kong would not be attending the ILO as a politically-independent territory.

Mr Lau said he hoped Hong Kong would be like other ILO delegations which had representatives from government, employees and employers.

Mr Lau said the ILO had not allowed nonindependent territories to join as members.

But as the concept of "one country, two systems" is new, he hoped it would change its rules for Hong Kong.

If the ILO agreed to give Hong Kong independent status, Mr Lau said they would discuss the proposal with the Chinese authorities.

Asked whether Hong Kong should "independently" join the ILO, the director of the local branch of the NEW CHINA NEWS AGENCY, Mr Xu Jiatun, said: "Hong Kong is part of China and there is no question of independence."

The manifesto appealed to labour organisations to set up groups on the basic law and appealed to the Chinese Government to appoint a worker's representative to sit on the drafting committee on the basic law.

CSO: 4020/207

CONSTRUCTION BUDGET DOWN; FOCUS ON INFRASTRUCTURE DEVELOPMENT

HK300331 Hong Kong SOUTH CHINA MORNING POST (BUSINESS NEWS Supplement) in English  
30 May 85 p 5

[Article by Suzanne Sim]

[Text] China will spend at least 70 billion renminbi (about HK\$210 billion) on construction projects, including railways and factories, this year, down from 73.5 billion renminbi last year.

China's Sixth 5-Year Plan, which ends this year, provided for a construction budget of 300 billion renminbi.

Mr Fan Guojun, senior architect and deputy director of the China Building Technology Development Centre, said it is proposed to build 100 million square meters of housing this year, while the construction of hotels and commercial buildings will proceed at a faster pace.

Renovation and construction work in the area of housing has been growing over the past few years at an average rate of about 60 million square meters a year.

But despite this rapid growth in construction activity, the average per capita residential space in the country is only about 4.6 square meters.

This is expected to reach about 8 square meters the end of the century. In other words, housing will have to grow at an average rate of 150 million square meters a year.

China is also placing special emphasis on infrastructural development.

Last year, the country invested about 60 billion renminbi in 123 projects, including railways, harbour construction, telecommunications and power generation. Of this, 26.3 billion renminbi was invested in traffic and energy facilities.

Mr Fan said hotel construction has been growing at a more rapid pace over the past 3 years, although statistics are not available as some projects are yet to be completed. However, Mr Fan pointed out that the emphasis has now shifted to building three-star hotels to accommodate Hong Kong and Macao tourists who generally do not wish to stay in expensive five-star hotels. Mr Fan said he believes this trend will continue.

Another trend is the policy of calling tenders for construction projects. Mr Fan said in 29 provinces tenders were called for a total of 4,000 projects last year.

PAO YU-KANG WINS CONTROL OF WHEELOCK

Pao Heads Wheelock

Hong Kong WEN WEI PO in Chinese 16 Mar 85 p 7

/Article: "Pao Yu-kang Takes Control of Wheelock--Yeo Duc But Gives Up His 25 Percent of Holding; Wu Kuang-zheng's Post Is Equivalent to Deputy Administrative Managing Director; Marden Is Being Retained as Board Director"

/Text/ The battle to buy out Wheelock that lasted for 1 month has finally come to an end. Kowloon Wharf, the latecomer that surpassed the oldtimers, declared success in acquiring control over Wheelock, and Yeo Duc But /6726 1795 2149/ has also expressed willingness to sell all his Wheelock holdings to Kowloon Wharf. At the meeting of the board of directors of Wheelock held yesterday, Pao Yu-kang /0545 3768 0474/ was named chairman of Wheelock, while former board chairman Marden was retained as honorary managing board director.

After successfully buying out Wheelock, Kowloon Wharf will become a comprehensive industrial group ranking in equal importance with Changjiang and Huang /7806/ and Jardine, Matheson Land. If Kowloon Wharf is to purchase all the Wheelock shares at the highest price, it will have to put up \$2.5 billion, however, because some of shares were purchased at a lower price, the actual amount of funds involved will be less than \$2.5 billion.

Victory issued a statement yesterday on behalf of Kowloon Wharf saying that Kowloon Wharf's holding of the Wheelock Co, Ltd shares had exceeded 50 percent. Therefore, the proposal that Victory would purchase, on behalf of the Kowloon Wharf, the "A" and "B" shares of Wheelock still not in the hands of that company will be completely unconditional.

In addition to the 25 percent holdings which Yeo Duc But is preparing to give up, Pao Yu-kang will have a 75 percent holding of the Wheelock shares, later, Pao Yu-kang will issue a document of purchase in line with the rules of purchase and merge to purchase the Wheelock shares still not in Kowloon Wharf's hand.

The Wheelock board of directors later issued a statement saying that upon learning of the above facts, Pao Yu-kang was appointed chairman and concurrently managing director with the power of an administrative managing director of that company at a meeting of the board of directors held earlier yesterday and Wu



Kuang-zheng /0702 0342 2973/ was appointed managing director with the power of deputy administrative managing director of that company. Marden has resigned as board chairman but was nominated to become honorary managing director of Wheelock and remained as a board director. Pao Yu-kang and Wu Kuang-zheng will not take part in the discussion by the board of directors with respect to the proposal of purchasing the Wheelock shares by Kowloon Wharf, and it has been confirmed that the subcommittee of the board of directors in charge of the purchasing proposal will continue to operate independently.

#### Yeo Profits

Hong Kong WEN WEI PO in Chinese 16 Mar 85 p. 7

/Article: "Yeo Stands To Earn Over HK\$100 Million By Changing Hands"/

/Text/ As Lo Fu-chi /5012 1381 7871/ Father & Son (Hong Kong) Co., Ltd was simultaneously announcing on behalf of Dan-si-li /0030 2448 6849/ and Yeo Duc But /6726 1795 2149/, Falwyn who holds about 25 percent of the Wheelock shares voting right is now preparing to accept Victory's proposal for purchase made on behalf of Kowloon Wharf. Yeo purchased Wheelock shares from Marden at HK\$6 per A share and HK\$0.60 per B share and later continued to purchase more shares in the market at a price lower than HK\$7 and HK\$0.70, respectively, by selling to Kowloon Wharf outright at HK\$7.40 per A share and HK\$0.70 per B share, it is estimated that Yeo could make over HK\$100 million in profit in this transaction.

The deputy stock exchange supervisory commissioner, Mei Hui-xian /2734 6540 6343/, said that according to the 12-article rules for purchase and merger, any person after announcing a proposal cannot withdraw that proposal without submitting satisfactory explanations to the commission, and that the proposal put forth by Yeo for the purchase was a conditional proposal for purchase which theoretically can be revoked because the conditions are untenable, however, since the Stock Exchange Supervisory Commission has not yet received any information from Yeo, it will not make any comment.

12662

CSO: 4006/492

ARAB BANK'S PURCHASE OF ENTIRE SUN HUNG KAI BANK DISCLOSED

Hong Kong TA KUNG PAO in Chinese 20 Mar 85 p 17

/Article: "Arab Bank Puts Up HK\$700 Million To Purchase Entire Sun Hung Kai Bank--Arab Bank Will Strengthen Supply of Capital and Affiliated Services to Hinterland; Peng Lizhi Delighted Over Such an Enormous Investment"

/Text/ Sun Hung Kai Co, Ltd announced yesterday that it had reached an agreement with the Arab Bank Group to sell fully the share rights of the Sun Hung Kai Bank at a price of HK\$360 million; at the same time, Feng Jingxi /7458 2529 4406/, chairman of the Sun Hung Kai Bank, turned the secondary loan of HK\$120 million currently extended to the Sun Hung Kai Bank into 25 percent of new common stock of the Sun Hung Kai Bank. Consequently, the Arab Bank's holding in the Sun Hung Kai Bank after reorganization will be 75 percent and Feng Jingxi's holding will account for 25 percent. Feng Jingxi will remain chairman.

After details governing the transaction are completed, the Arab Bank will inject \$372 million /as published/ of new capital into the Sun Hung Kai Bank in the form of changing shares into preferred stock. The total cost for the Arab Bank in making this purchase, including the purchase price and the injection of new capital, amounted to \$732 million /as published/.

In an interview with a TA KUNG PAO reporter last night, Peng Lizhi /1756 0536 3112/ of the Finance Department, said: "I am greatly delighted over such an enormous investment in Hong Kong by a major bank in the Middle East."

As a result of this deal, the Sun Hung Kai Co, Ltd will have to cancel out the reappraised irregular loss of the bank's assets in the amount of HK\$186 million which has been offset by a portion of the irregular profits derived from the recent sale of the Hong Kong Television Co, Ltd holdings in the amount of approximately \$230 million /as published/. Governor Saudi /3097 6611/ of the Arab Bank Group said that the group had always hoped to expand its operations to Asia and develop relations with China through Hong Kong. The Arab Bank appreciated the basis provided by Sun Hung Kai Bank with its customers' accounts and the fact that its cooperation with Chairman Feng Jingxi of the Sun Hung Kai Bank will effectively put Hong Kong in the leading position as an international finance and trade center; this is actually an important link for the Arab Bank to develop its global banking business. He also said that

after the purchase is completed, the "Arab Bank" will be in a much better position to provide funds and other affiliated services to serve the Chinese trade.

Chairman Feng Jingxi of the Sun Hung Kai Bank said that by having the opportunity to associate with the Arab Bank Group of substantial scale, there is plenty of room for the Sun Hung Kai Bank to develop; the selection of Sun Hung Kai Bank as an initial target of investment of the Arab Bank has shown the confidence of international investors in Hong Kong and also reflected the importance of Hong Kong's position and its indomitable reputation in business. He hoped to become a regular member of Sun Hung Kai Bank.

Ai Weilin /5337 0251 2651/, administrative managing director of the Sun Hung Kai Co, Ltd indicated that the selling of the Sun Hung Kai Bank and the Hong Kong Television Co, Ltd was a measure of reorganizing the overall operational policy of the Sun Hung Kai group with its long-term investment plan concentrating on commercial banking, stock exchange brokerage business, Chinese trade and other services to financial investments.

The agreement on the sale of the Sun Hung Kai Bank must be approved by a special meeting of the Sun Hung Kai shareholders. It is expected that the meeting will be convened before the end of April.

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END